

FREE TRANSLATION FROM THE ORIGINAL IN UKRAINIAN

ANNUAL REPORT

JSC «BANK AVANGARD» for 2023

including

**REPORT OF MANAGEMENT BODIES «MANAGEMENT
REPORT», which includes CORPORATE
MANAGEMENT REPORT**

ANNUAL FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

26 February 2024

Kyiv

Content

	Page
Report of the management bodies «Management report», which includes Corporate management report for 2023	3
Annual financial statements for the year 2023	64
<i>Statement of Financial position as at 31 December 2023</i>	65
<i>Statement of Comprehensive income for 2023</i>	66
<i>Statement of Cash Flows for 2023 (direct method)</i>	67
<i>Statement of Changes in Equity for 2023</i>	69
Notes	70
Independent auditor's report	145

**REPORT OF MANAGEMENT BODIES
«MANAGEMENT REPORT»,
which includes
CORPORATE MANAGEMENT REPORT OF
JSC «BANK AVANGARD»
for 2023**

1. INTRODUCTION.

This report is drawn up according to the requirements of the current legislation of Ukraine, namely: requirements of the National Bank of Ukraine regarding the procedure for preparing and publishing the financial statements of the banks of Ukraine, the Laws of Ukraine "On Securities and Stock Market" and "On Financial Services and State Regulation of Financial Services Markets" following the results of the activities of the JOINT-STOCK COMPANY "BANK AVANGARD" (hereinafter referred to as the "Bank"). The reporting year is 2023.

2. NATURE OF BUSINESS.

The National Bank of Ukraine registered the Bank on July 5, 2013. The Bank conducts banking operations in the money and foreign exchange markets in accordance with the banking license (The Bank was registered in the State Register of Banks on July 5, 2013 under No. 346, Extract from the State Register of Banks dated August 16, 2021 No. DRB-000069). The Bank offers its customers a wide range of banking services and products, but focuses its main activities on the currency, money and securities markets, conducting transactions both using its own funds and the funds of the customers.

2.1. Economic environment in which the Bank operates

On February 24, 2022, a full-scale invasion of the territory of Ukraine by the troops of the Russian Federation began. In connection with the military aggression of the Russian Federation against Ukraine, based on the proposal of the National Security and Defence Council of Ukraine, the President of Ukraine in accordance with the Decree of the President of Ukraine of February 24, 2022 № 64/2022 imposed martial law in Ukraine for 30 days. the same day was approved by the Verkhovna Rada of Ukraine.

The National Bank promptly made decisions and imposed temporary restrictions on the operation of the foreign exchange market of Ukraine, fixing exchange rates, restrictions on cash withdrawals and a moratorium on cross-border payments, etc. in connection with the declaration of martial law throughout Ukraine. Appropriate actions are necessary to ensure the reliable and stable functioning of the country's financial system and maximize the activities of the Armed Forces of Ukraine, as well as the smooth operation of critical infrastructure.

At its extraordinary meeting on February 24, 2022, the National Securities and Stock Market Commission (NSSMC) decided to temporarily suspend operations with all securities, as well as to conduct operations in the depository accounting system and clearing accounting systems, and to temporarily suspend operations with assets of CII and NPF. On 08 August 2022, the NSSMC lifted most of the restrictions imposed on 24 February 2022 in connection with Russia's armed attack on Ukraine and the introduction of martial law.

According to the NBU experts, the foreign exchange and stock markets are currently operating under significant restrictions that were introduced under martial law. Authorised institutions are effectively prohibited from trading in foreign exchange, except in certain cases. Most transactions on the interbank market involve the NBU, both buying and selling foreign currency.

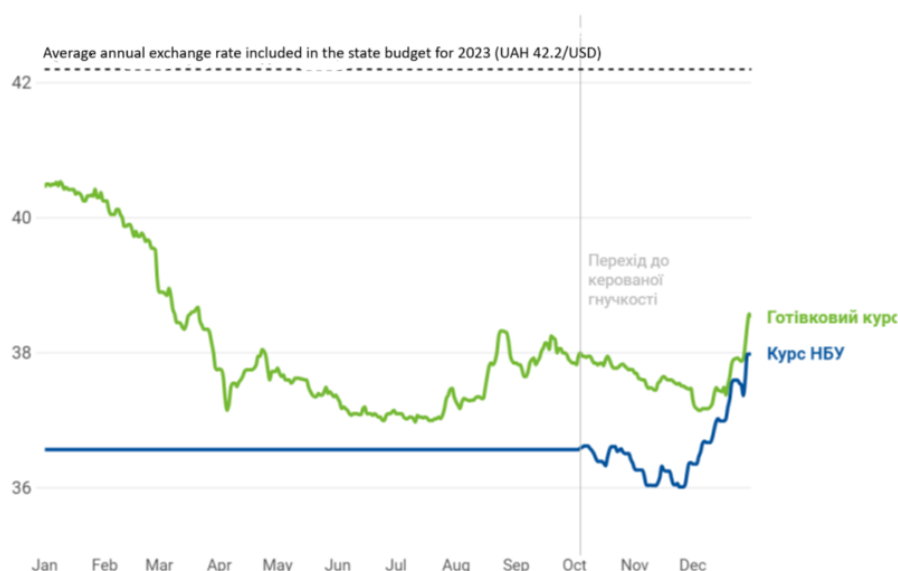
Monetary and financial sectors

Hryvnia

Ukraine entered 2023 with an official exchange rate of 36.6 hryvnia to the dollar. The cash exchange rate was significantly higher: UAH 40.5 to the dollar as of 1 January. Expectations for the year varied: the government budgeted for an average annual exchange rate of 42.2 UAH/USD in 2023, while non-governmental experts agreed on a consensus forecast of an average annual exchange rate of 37.9 UAH/USD.

In the end, the NBU kept the exchange rate fixed at 36.6 for most of the year, and the gap with the cash rate gradually narrowed. On 3 October, the NBU switched to a managed flexibility regime, but the hryvnia was even slightly strengthening due to significant FX interventions. In December, the trend reversed and the dollar began to rise, and Ukraine entered the new year of 2024 with an exchange rate of 38 UAH/USD. However, the average annual official exchange rate was lower than both government and non-government forecasts, remaining at UAH 36.6 per dollar

Note 2. Economic environment in which the Bank operates (continued)



The impact of war on the banking sector is manifested through the following components:

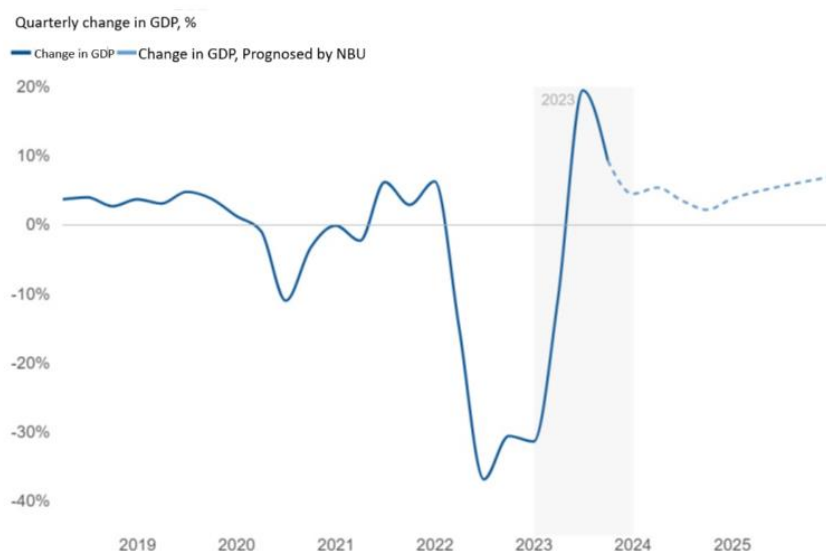
- interruptions in the operation of bank branches and ATMs, significant damage or destruction of banking infrastructure in the areas of military operations;
- reduced liquidity due to outflows of customer funds, partially offset by support from the NBU through refinancing instruments;
- reduction in the loan portfolio due to the actual cessation of new lending by banks (except for lending by state-owned banks to sectors and enterprises that are critical under martial law);
- a sharp (at least 50%) decline in the operating income of banks (due to reduced demand for services from customers, the introduction of "credit holidays",

- restrictions on foreign exchange transactions, etc.), which may result in their operating losses in the medium term;
- the inability of some borrowers to service their loans, deterioration in payment discipline due to the suspension of operations of many businesses, loss of income sources by individuals (including refugees), and the forced relocation of millions of Ukrainian citizens;
 - a decline in the capital of banks due to a shortfall in income, material losses and the loss of a part of the loan portfolio.

According to experts of the National Bank of Ukraine, the financial sector continues to operate smoothly, customer confidence in banks remains high, and they are increasingly lending to businesses and households. Despite the persistence of military risks, the financial sector is playing an increasingly important role in economic recovery.

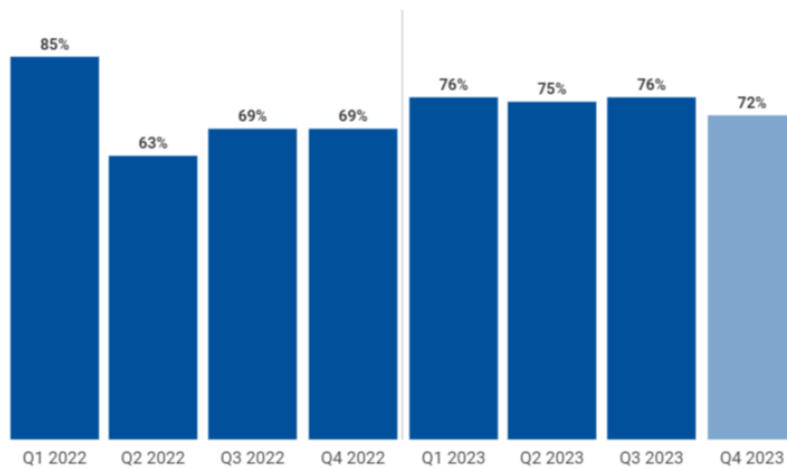
GDP dynamics

In 2023, Ukraine's real GDP is estimated to have grown by 5-5.5%. This is a recovery after a sharp 28.8% drop in 2022. Despite the recovery, GDP is still about a quarter lower than in 2021. In the first quarter of 2023, GDP was still falling, but grew for the remaining three quarters.



GDP growth occurred against a low comparison base in 2022, meaning that the economic recovery had actually stopped. In each quarter of 2023, real GDP was lower than in the corresponding quarter of 2021.

Real GDP by according quarters of 2021, %

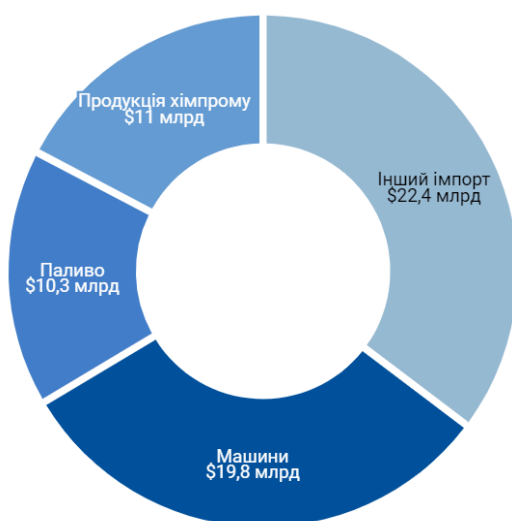


In 2023, Ukraine exported \$36 billion worth of goods and imported \$63.5 billion. Merchandise exports decreased for the second year in a row: in 2021, Ukraine's exports of goods reached \$68.2 billion, and in 2022 - \$44.2 billion. The key categories of Ukraine's merchandise exports are food (mostly grain) and metals, which are highly dependent on easy logistics.

In 2023, Ukraine created its own Ukrainian Sea Corridor to the Black Sea ports of Odesa region. This has allowed for a gradual increase in not only grain exports, but also the resumption of maritime exports of other goods, as well as the resumption of maritime import.

Найбільші категорії товарного експорту та імпорту України у 2023, млрд дол.

Імпорт (\$63,5 млрд)



Експорт (\$36 млрд)



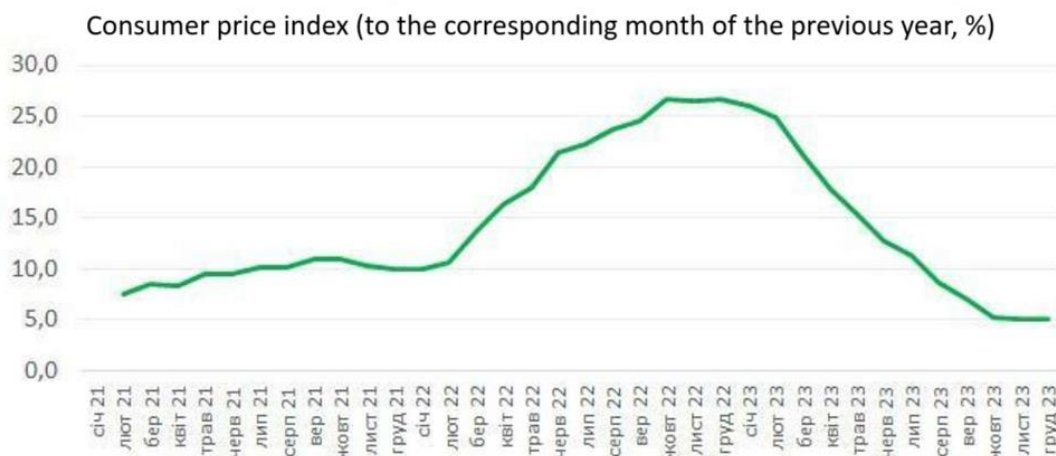
The weather in 2023 was favourable for agriculture, and farmers were able to break yield records. Grain yields increased to 54.7 cwt/ha, beating the previous record of 53.6 cwt/ha in 2021. Yields of other crops were also good. This made it possible to harvest high yields despite the loss of a significant part of the territories that are either under occupation or dangerous for agriculture.

High harvests also bring certain challenges - it is important to maintain logistical capabilities for food exports. At the end of 2023, sea exports of grains and oilseeds through the Ukrainian Sea Corridor reached the peak indicators of the Grain Agreement.

Ukraine's metallurgical enterprises have been gradually, slowly, recovering. Currently, steel mills are operating at around 70% of their capacity. At the end of 2023, the rope around the neck of steelmakers was finally loosened, with the resumption of sea exports through the Ukrainian Sea Corridor. The corridor should continue to operate, and opportunities for ferrous metal exports should be expanded. This will make the steel industry feel much more confident, as before the war, 4/5 of the industry's output was exported, and it is almost impossible to replace such volumes with domestic consumption.

Inflation

Ukraine entered 2023 with record-high inflation, which was driven by the war and the printing of the hryvnia to cover military spending. However, inflation was brought under control during the year: regular inflows of foreign aid allowed the government to stop monetary financing (through hryvnia printing) of the budget, and good harvests helped to reduce food prices. In December 2023, inflation stood at 5.1%, almost returning to the pre-war inflation target of 5%.



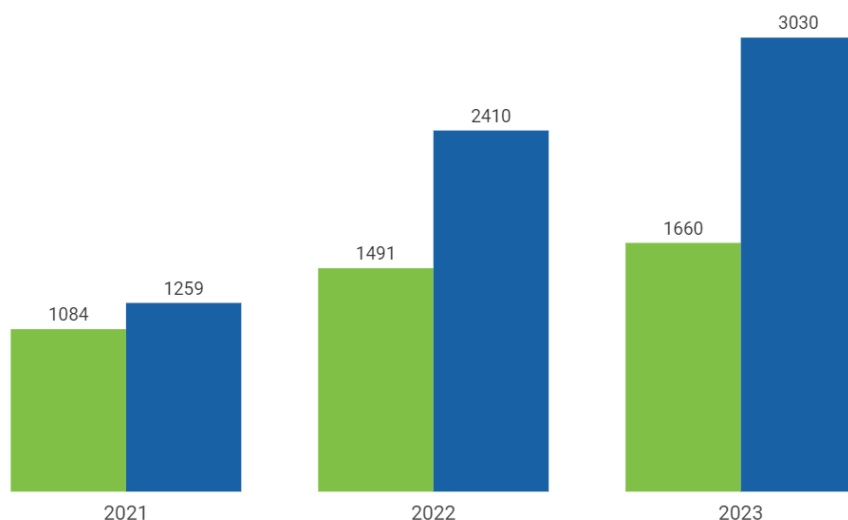
Budget

The Ukrainian budget in 2023 is still a budget of war. About half of the state budget is spent on defence; we estimate that defence spending will exceed 30% of GDP in 2023. For comparison, the NATO "norm" in peacetime is 2%.

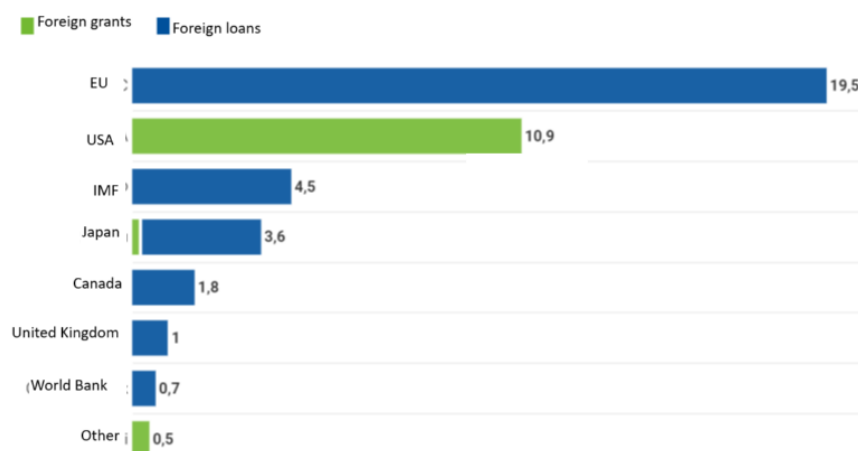
Ukraine's own tax and customs revenues were still not enough to cover all budget expenditures. The difference was covered by foreign financial assistance and the issuance of military bonds.

Надходження та видатки загального фонду державного бюджету, млрд грн

■ Надходження ■ Видатки



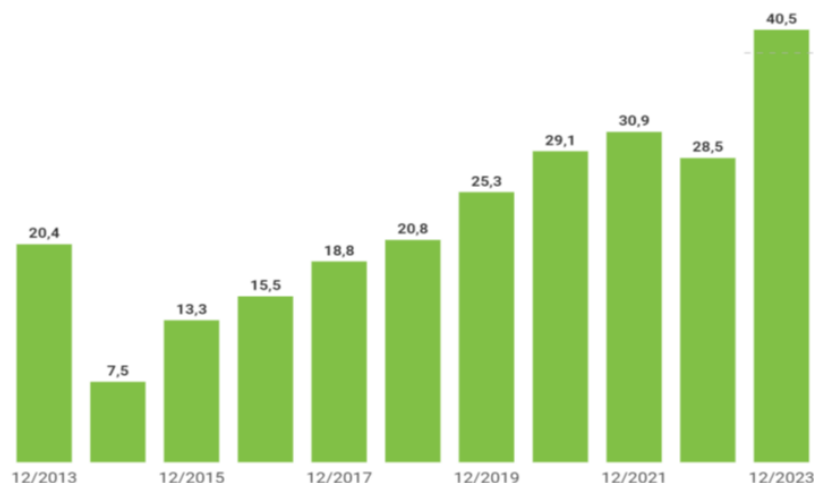
In 2023, Ukraine continued to receive foreign financial assistance - more than in 2022 (\$42.5 billion in 2023 vs. \$31.1 billion in 2022), and more regularly and predictably. The assistance mostly came in the form of loans (63% of all financial assistance) rather than grants; however, these loans were very concessional and necessary for Ukraine, as they allowed it to finance important budgetary needs today.



In total, the state budget's additional financing needs for 2023 amounted to USD 59.9 billion, including USD 47.9 billion for the budget deficit and USD 11.9 billion for debt repayment. Foreign aid covered 71% of these needs; the rest was financed mainly through the issuance of domestic government bonds.

Thanks to foreign financial assistance, foreign exchange reserves reached historically record levels in 2023. At the end of the year, Ukraine's international reserves stood at \$40.5 billion. This is more than the historical record before the full-scale invasion, when reserves reached their previous peak of \$38.4 billion in April 2011. This situation during the war was only possible because of the unprecedented financial support provided to Ukraine. The high level of reserves is a kind of safety cushion in case of interruptions in the further flow of aid.

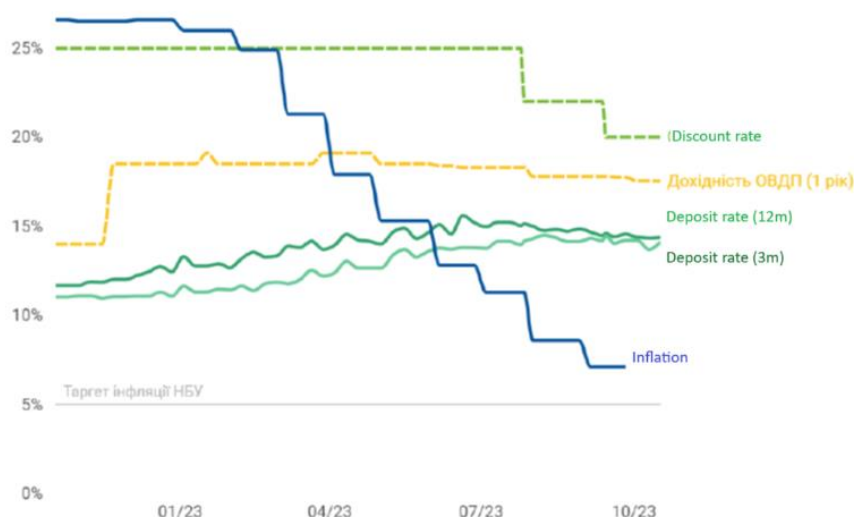
Gross international reserves at the end of December 2013-2023, USD billion



In 2023, the government raised UAH 566 billion through domestic government bonds, more than twice as much as in 2022. The fiscal gap also narrowed. In 2022, the government spent UAH 133 billion more to redeem previous issues of domestic government bonds than it managed to raise from new domestic debt; in 2023, it managed to refinance the repayment of the old debt and raise another UAH 196 billion on top of that. However, if we compare the proceeds from new domestic government bonds issues for the year with the cost of repaying the debt on domestic government bonds and budget expenditures on debt servicing, the difference was still negative (UAH 3 billion).

Financial sector

During 2023, the key policy rate decreased from 25% to 15%. The yield on one-year hryvnia military bonds decreased to 17.55%. Average interest rates on retail deposits (UIRDs) declined to the 13-14% range, but are above the inflation rate.



The volume of household deposits remained unchanged for hryvnia time deposits and decreased for demand deposits. On the other hand, time deposits in foreign currency showed growth.

Loans to residents increased slightly, but remain generally low. With war risks still present, lending is unlikely to improve significantly without government support or war risk insurance.

In 2022, due to a significant decrease in lending and lower demand for banking services in general, as well as the revaluation of its assets due to the hostilities and occupation, banking profits declined.

In contrast, 2023 was an extremely profitable year for banks due to monetary policy that provided for high rates on NBU certificates of deposit. To finance state defence spending, a temporary higher bank profit tax was introduced: 50% in 2023 and 25% in 2024-2025.

Migration and the labour market

According to conservative estimates, up to half of Ukraine's pre-war population, or at least 20 million people, are directly involved in active migration processes caused by Russian aggression.

Approximately 8 million Ukrainians have found safe haven in European countries, of which 5 million have been granted temporary protection in one of the host countries. Half of all Ukrainian refugees have settled in Poland and Germany. Ukrainians who are internally displaced abroad are mostly women and children under 18. Up to 6.5 million Ukrainians are internally displaced persons (IDPs).

Since the beginning of the full-scale invasion, the State Statistics Service has not published unemployment data. The Info Sapiens research agency makes its own estimates of unemployment. Throughout 2023, the trend of a steady decline in unemployment continued. At the same time, at the end of the year, unemployment was still one and a half to two times higher than in early 2022, before the full-scale invasion.

Throughout 2023, 20-25 percent of Info Sapiens respondents consistently reported that they were saving on food, which roughly coincides with the World Bank's poverty estimate for Ukraine.

The number of vacancies in the labour market recovered steadily in 2023, but has not yet reached the level of 2021. On the other hand, the dynamics of job seekers were negative, which is also confirmed by the results of a business survey that states that a lack of labour is a significant obstacle to business activity.

In the first month of the full-scale war, mass layoffs and a slowdown in business activity saw many more new workers enter the labour market than employers could accommodate. Throughout 2022, the labour market dynamics levelled off, and in 2023, the ratio of new job seekers to new vacancies reached the level of 2021.

On the one hand, there are more vacancies in the market overall; on the other hand, there are fewer people willing to take up these positions. The market has stabilized after the initial shock of a full-scale war and is gradually adapting to the structural changes in the economy. At the same time, there are fewer and fewer available workers in Ukraine: a significant number of Ukrainians are abroad, and about a million men and women are defending the country in the ranks of the Defence Forces.

The peak of credit losses from the full-scale war has passed. This was confirmed by the NBU's resilience assessment. Adjustments to prudential provisions were generally insignificant. Today, about a third of the total amount of non-performing corporate loans are those that arose during the full-scale war. For a large part of the debtors, the reason for default was the loss of sales markets or a drop in domestic demand.

Therefore, some of them have a chance to resume loan servicing when economic conditions improve. The average default rate is declining in both the corporate and retail segments. For household loans, it has come close to pre-crisis levels. However, an elevated level of credit risks remains for companies in a number of industries that are recovering slowly. Some agricultural producers are also facing significant financial difficulties this year due to low domestic prices for their products. However, they are maintaining a constructive dialogue with banks to resolve their liquidity problems. Overall, the realities of almost two years of war have confirmed that banks generally have a sufficient appetite for lending, are willing to take moderate credit risks, and, if they do, can effectively manage bad debts.

Banks incurred almost no provisioning costs this year. Losses from defaults were offset by the release of provisions on performing asset portfolios due to improved macroeconomic expectations. However, this situation is unique, so we should not expect a repeat of this scenario next year: the level of credit risk losses in all segments will return to normal in the future. However, credit losses will continue to be easily covered by banks' current operating profits.

A significant reduction in the NBU's key policy rate changed the yields on major Banks of interest-bearing assets. The share of income from certificates of deposit, which saw the most rapid decline in interest income, is declining. On the other hand, the average yield on domestic government bonds has slightly increased in recent months, as older issues are being replaced in banks' portfolios by new ones with higher coupons. Currently, the pricing conditions for domestic government bonds are attractive, as banks receive an appropriate premium for the maturity of their investments compared to the key policy rate. The weight of lending income in interest income is increasing: although business loan rates declined slightly, the portfolio of such loans grew. At the same time, banks cut deposit rates, primarily to legal entities. Interest margins for banks are likely to have passed their peak, but they will remain high and a reduction in them does not pose a significant risk to banks.

The indefinite increase in the tax rate to 25% starting in 2024 will have a significant impact on banks' profitability. This factor will reduce the profitability of the banking business and the speed at which banks replenish capital. In November, in a survey on systemic risks, banks for the first time in a long time identified the quality of legislation and the tax system as one of the most important risks.

High bank profitability has led to an increase in capital adequacy ratios. Today, the capital stock is more than sufficient not only to cover the risks already taken into account in the regulations, but also to meet the new planned requirements. The most significant of these are full capital coverage of operational and market risks. Also, next year, a new regulatory capital structure will be introduced and new minimum capital adequacy requirements will be implemented.

This year's resilience assessment confirmed the banking sector's high safety margin. The assessment was based on a baseline macroeconomic scenario, which at the same time assumed a number of risks: primarily a reduction in interest margins and credit losses. Twenty large banks were assessed for resilience. Of these, only five were subject to higher capital adequacy ratios, primarily due to long-standing problems with portfolio quality and business models. Taking into account the results of the resilience assessment, the NBU will analyse the feasibility and possible timing of the capital conservation buffer and the systemic importance buffer early next year.

After that, the restrictions on capital distribution and dividend payments by banks that have fully formed these buffers may be eased.

The non-banking financial sector is being transformed. New laws on insurance, credit unions, financial services and financial companies will come into force in early January. The insurance market has changed the most in recent years as a result of the gradual tightening of solvency and asset quality requirements. Insurers that were unable or unwilling to meet the new requirements left the market. At the same time, this has made the sector more resilient to challenges. The payments market is also developing dynamically, driven by the opportunities provided by the new legislation. So far, the volume of transactions of non-bank payment service providers has been insignificant, so there are no systemic risks in this segment.

In the coming years, as the current problems caused by the war are resolved, the NBU will focus on long-term priorities for further harmonisation of financial sector regulations with European legislation.

2.2. Business model, management objectives and strategies for achieving these objectives.

The Bank operates as a universal bank which activities are aimed at providing the customers with all-inclusive servicing and high-quality services by offering a wide range of banking services and products, focusing its main activities on the currency, money and securities markets, conducting transactions both using its own funds and funds of the customers. According to the results of the government bonds trading, the Bank was among the TOP-5 largest market operators in peacetime.

The Bank has no branches and economically autonomous structural subdivisions. The customers are serviced at the Head Office at 3 Sholudenka Street in Kyiv.

As for the end of the reporting period, the Bank's customer base is formed by business entities (140 customers), non-banking financial institutions (36 customers), individual customers (319 customers) and individual entrepreneurs (7 customers). The Bank serves 1418 accounts and 505 customers in total.

The main aspects of the Bank's activities:

- Trade in securities (mainly in the domestic government loan bonds and corporate bonds of blue chips)
- REPO (repurchase agreement) transactions with the domestic government loan bonds
- Active participation in the interbank credit market
- Forex transactions (including currency forwards, SWAP operations)
- Derivatives transactions (interest rate swaps, futures)

The Bank's activities are based on the principles of reliability, transparency, balance of financial indicators, observance of regulations and best practices of banking activities in the following areas:

Treasury transactions: money market transactions, foreign exchange market transactions, securities transactions, relationships with professional financial market participants - banks, insurance companies, financial intermediaries of the capital markets. Transactions on attracting deposits from the Bank's customers are deemed to be the money market transactions, since they are the source of financing of the Bank's main activities. To ensure such financing, the Bank organized the customer service, document flow associated with all types of transactions and operations, processing of payment orders and notifications in the Customer-Bank System, opening and maintenance of current accounts of the customers and correspondent banks, including transfer of money funds by means of payment instruments and credit of funds to accounts: maintenance of accounts of

customers (residents and non-residents) in foreign currency and non-resident customers in the currency of Ukraine; maintenance of correspondent accounts of the banks (residents) in foreign currency; opening of correspondent accounts with authorized banks of Ukraine in foreign currency and carrying out transactions thereon.

The Bank was established according to a special concept focused on the use of a solid grounding, in its business segment with maximum operating efficiency by means of price-related competition and high-tech solutions. At this stage the main directions of the Bank's activities are securities trading, active participation in the interbank loans market, "Forex" market transactions. The Bank aims to acquire the status of government bonds primary dealer from the Ministry of Finance of Ukraine.

The Bank's goal is to become a flawless settlement mechanism with a high speed of transaction processing. As a treasury bank with low administrative costs, the Bank is able to offer its customers attractive prices for its services. By minimising the length of the operational cycle, the Bank maximises the number of transactions per day and the turnover of funds. Thus, the Bank is able to offer low rates, the best in the foreign exchange market, which in turn contributes to better than average market return on equity and assets.

As at the date of this Report, the Bank's share capital amounted to UAH 200,080 thousand, which is in line with the regulatory requirements. The decision of the Bank's shareholder to increase the share capital to UAH 231,800 thousand is in the process of registration, the stage of approval by the National Bank has been completed.

In connection with the ongoing large-scale armed aggression of the Russian Federation against Ukraine, based on the proposal of the National Security and Defence Council of Ukraine, on 12 February 2024, the President of Ukraine signed laws extending the martial law and general mobilisation in Ukraine from 14 February 2024 for a period of 90 days (i.e. until 14 May 2024).

As it is not possible to estimate precisely what proportion of customers will be able to return to normal loan servicing and in what time horizon, and even in an optimistic scenario, the losses for banks could be significant.

In view of the current situation, the Bank's management conducts daily operational monitoring of its activities and ensures prompt response to current events and changes in the situation. In addition, assessing possible scenarios and based on the specifics of the assets, the Bank's management estimates possible losses as below the industry average and such that will not affect the Bank's ability to continue as a going concern. Also, the Bank's management does not expect a sharp deterioration in the economic situation.

The conservative scenario is taken as the base case. The Bank does not expect a rapid economic recovery next year for obvious reasons. At the same time, the Bank's management has every reason to expect a slowdown in inflation, a controlled situation in the foreign exchange market, and a reduction in the refinancing rate. Also, the corporate bond market is expected to gradually return to full functioning.

The Bank plans to continue to comply with the requirements of the National Bank of Ukraine regarding prudential ratios, share capital and regulatory capital.

The Bank's strategy has not changed significantly since the start of its operations in 2013. Business plans and budgets are reviewed at least once a year to clarify the key financial market indicators that are a prerequisite for their preparation, and to make appropriate changes in case of introduction of new products.

During 2023, the National Bank of Ukraine did not apply any prohibitions to the Bank to restrict the types of activities that the Bank may perform in accordance with the permits and licences granted, and there were no restrictions on asset ownership.

In the reporting year, the Bank's management did not make any decisions on merger, acquisition, division, spin-off or transformation of the Bank or on termination of certain activities of the Bank. There were no bankruptcy proceedings initiated or a resolution on the Bank's rehabilitation, nor did the Bank's supreme governing body or court decide to terminate or bankrupt the Bank.

Regarding the claim of the Cabinet of Ministers of Ukraine against the Bank: as of the date of this Report, there are no court proceedings initiated under the claim of the CMU against the Bank to consider the merits of the claim. The appellate instance is considering the procedural issue of the legality of returning the claim to the applicant (the CMU) without consideration. The Bank has all legal grounds to expect a fair decision in both the appeal and the dispute on the merits.

The Bank is involved as a third party without making separate independent claims in several lawsuits brought by the Bank's ultimate beneficial owners against the National Bank of Ukraine regarding the regulator's decisions.

The Bank has consistently high financial strength ratios, including liquidity and capital ratios. The Bank's management has received assurances of the shareholder's support, is actively engaged with the Supervisory Board in this regard and is confident that any court decision will not affect the Bank's financial position.

The Bank's management believes that the application by the National Bank of Ukraine in January 2024 of the measure of influence in the form of deprivation of voting rights to the owners of significant participation in the Bank, including the Bank's shareholder, does not affect the Bank's financial stability and its going concern. The shareholder's rights will be exercised by a trustee, whose appointment and approval by the National Bank of Ukraine is expected to be completed within the time limits established by the current legislation of Ukraine and before the expiry of the deadline for the shareholder to consider issues to be considered at the annual general meeting of shareholders.

The Bank has established competent and effective Supervisory Board and Management Board, which, if necessary, consider all issues of the Bank's activities within their competence.

Every decision of the NBU regarding the shareholders and the Bank's CMB has been or will be challenged in court and there is every reason to believe that a fair decision will be reached.

3. INDICATORS OF THE BANK'S DEVELOPMENT IN 2023.

As at 31.12.2023, the Bank's assets amounted to UAH 1,303,493 thousand (31.12.2022: UAH 9,407,618 thousand).

The quality of assets of BANK AVANGARD JSC is good. Highly liquid assets remain the main component of the Bank's assets. Highly liquid assets are mainly represented by government bonds and deposit certificates of the National Bank. Funds on NOSTRO accounts are placed with resident banks.

The Bank's liabilities as at 31.12.2023 amounted to UAH 959,855 thousand (31.12.2022: UAH 9,164,962 thousand). The resource base is formed by customer accounts, in particular, short-term funds of legal entities and individuals. As at 31 December 2023, the portfolio of customer accounts amounted to UAH 871,553 thousand (31 December 2022: UAH 9,098,712 thousand).

Information on entering into derivative contracts: as at 31 December 2023, the Bank entered into derivative financial instruments, namely: a forward securities purchase and sale agreement in the amount of USD 1,061.32 thousand and a foreign exchange purchase and sale agreement under swap agreements in the amount of USD 100 thousand.

In 2021, BANK AVANGARD JSC issued and placed 100,000 (one hundred thousand) Series A bonds maturing on 08.04.2026 and 100,000 (one hundred thousand) Series B bonds maturing on 07.04.2027. During 2021, the Bank redeemed 77,500 (seventy-seven thousand five hundred) Series A bonds of its own debt maturing on 08.04.2026 and 97,500 (ninety-seven thousand five hundred) Series B bonds maturing on 07.04.2027. In the first quarter of 2022, the Bank redeemed 18,000 (eighteen thousand) Series A bonds of its own debt maturing on 08.04.2026.

As at 31 December 2023, the total amount of bonds placed was UAH 7 million.

As at 31.12.2023, the Bank's equity amounted to UAH 343,638 thousand (31.12.2022: UAH 242,657 thousand). The main component of the equity capital is the Bank's share capital.

As at 31 December 2023, the Bank's share capital amounted to UAH 200,080 thousand (31.12.2022: UAH 200,080 thousand).

As at 31.12.2023, the Bank's regulatory capital amounted to UAH 340,337 thousand, including Tier I capital in the amount of UAH 237,523 thousand, Tier II capital in the amount of UAH 102,814 thousand.

During the reporting period, the Bank complied with the prudential ratios of the National Bank of Ukraine, which as at 31.12.2023 were as follows:

	Characteristic value	As at the end of 31 December 2023	As at the end of 31 December 2022
Regulatory capital ratio (N1)	UAH 200 000 thousand	UAH 340 337 thousand	UAH 241 683 thousand
Regulatory capital adequacy ratio (N2)	Not less than 10%	80,50%	52,48%
LCRBB	100%	521,2656%	109,7927%
LCRIB	100%	607,8046%	594,6036%

In order to monitor banks' liquidity, the National Bank has introduced the following liquidity ratios: liquidity coverage ratio (LCR), for all currencies (LCRBB) and for foreign currency (LCRIB).

Liquidity Coverage Ratio (LCR) is a liquidity ratio that sets the minimum level of liquidity required to cover a net expected cash outflow for 30 calendar days, taking into account the stress scenario (hereinafter referred to as net expected cash outflow).

The Bank calculates its Liquidity Coverage Ratio (LCR) daily as the ratio of high-quality liquid assets to the expected net cash outflow.

Following the results of 2023, the Bank's activities are income-generating and the net profit amounted to UAH 102 063 thousand.

More information is provided in the Annual Financial Report of the Bank for 2023.

On 20.02.2024, the independent rating agency "Credit-Rating" affirmed the long-term credit rating of JSC "BANK AVANGARD" at the highest level uaAAA. The maximum rating was also confirmed for the bank's issues of interest-bearing registered unsecured bonds. The outlook of all ratings is "stable". The rating report can be found at the link: <https://avgd.ua/wp-content/uploads/AVNG-001-022-short.pdf>

The Bank's goals and achievements in the reporting period were influenced by external factors, namely changes in legislation, in particular, the Law dated 21.11.2023 No. 3474-IX "On Amendments to the Tax Code of Ukraine on Peculiarities of Taxation of Banks and Other Taxpayers", which retroactively increased the income tax to 50%. At the same time, one of the Bank's achievements is the excess of the planned profit due to the high discount rate of the National Bank of Ukraine. During the reporting period, the Bank also implemented a project to provide payment services to a non-bank payment service provider, which demonstrates the high level of technological capabilities of the payment automation system.

In 2023, the Bank transferred more than UAH 100 million to Ukraine's aid projects, which it sent to the Ukrainian fundraising platform United24, as well as to the largest and most transparent reputable Ukrainian charitable foundations. These funds were used to purchase medicines and medical equipment, machinery, evacuation vehicles, and supplies to deal with the aftermath of the Russian terrorist attack on the Kakhovka hydroelectric power station, as well as to rebuild schools and shelters.

As a socially responsible business, the Bank will continue to provide assistance to Ukraine to the maximum extent possible this year.

4. THE BANK'S PLANS FOR 2024 AND FOR THE LONG TERM.

In 2024, due to changes in the market situation, the Bank plans to hold the government bonds portfolio in the amount of ~600 million UAH. The Bank plans to raise funds counterparties under the best market conditions to invest in Domestic Government Bonds. The remaining assets will consist of due from other bank and short-term loans granted to reliable borrowers. At the same time, 85% of the Bank's assets are placed for up to 30 days, and at least 85% of the assets are highly liquid, as they consist of interbank loans, domestic government bonds and cash on correspondent accounts with the most reliable Ukrainian and foreign banks. At least 85% of the due to customers are funds of legal entities.

In 2024-2026, the Bank plans to maintain the same structure and quality of the Bank's assets as in previous periods.

At the same time, the Bank does not conduct and does not plan to conduct cash transactions, as well as retail business, except for transactions with domestic government debt bonds, forex, settlement and passive transactions for private investors.

High profitability indicators (RoA, RoE) and relatively low operating efficiency (Cost-to-Income Ratio) compared to the industry average confirm the economic feasibility of the bank's concept and its high technological efficiency.

At the same time, the Bank is dependent on interest rates and changes in exchange rates. Therefore, a promising area of work is the introduction of new products with a focus on increasing the share of commission income in the Bank's revenue structure, secured guarantees, short-term overdrafts, currency forwards, FX SWAP transactions with clients, attracting large companies interested in the Bank's services, and developing transactional business.

In order to attract customers and promote the Bank's services, the Bank plans to improve all sales channels, including the Bank's website, expanding the functionality of the Bank's mobile application, information work (analytical reports, reviews, legal opinions and

recommendations to customers, etc.), mechanisms for attracting new customers to the Bank and optimising operational procedures to meet the requirements of the times in terms of speed and simplicity of transactions and reliability of settlements.

In the context of the economic downturn and reduction of customers' business, taking into account the requirements and opportunities of the Law of Ukraine "On Payment Services" and the implementation of the National Bank's SEP-4, the Bank improves the technological capabilities of its payment automation systems to develop cooperation with non-bank payment service providers and provide them with settlement bank services. Thus, the Bank is focused on developing its transactional business to increase its customer base and generate commission income.

An important area of work (as soon as possible) is also the opening of direct correspondent accounts with leading international banks, which will significantly increase commission income.

In 2023, the bank confirmed the compliance of its procedures with the requirements of the international standards for the quality management system ISO9001:2015 and the information security management system ISO/IEC27001:2022 by passing the relevant recertifications in accordance with the requirements of the latest version of the standard. The Bank is implementing a business continuity management system in accordance with the international standard ISO 22301. In 2024-2026, the Bank plans to conduct its activities in accordance with anti-corruption procedures in accordance with the international standard ISO 37001, which is gaining popularity in the world. In 2024-2026, the Bank will comply, as in previous years, with the requirements of international standards ISO 9001, 27001, 22301 and 37001.

High reliability of the Bank's IT services located in the De Novo cloud environment and provided with high-speed aggregated communication channels provides the Bank's customers with uninterrupted secure access to the remote service system and allows for quick settlements. To ensure continuous operation of the bank and its information systems, the need to maintain dedicated communication channels in the "hot standby" at the respective locations of the NBU, to keep the backup of critical information systems up to date with the help of cloud service providers within the requirements of the bank's BCM, and to ensure the creation, storage and prompt restoration of data from backup copies of the respective information systems, the Bank has created additional backup communication channels. The Bank plans to continue improving information security and continuity of services, and to maintain compliance of banking settlement technologies with the best practice standards.

The Bank plans to strengthen the crypto-resistance of its settlement mechanisms and systems, and will work to create an innovative platform for the development of new products and services. This will be facilitated, among other things, by the introduction of new products for monitoring and auditing information security, expanding the use of QES in the Bank's activities and the use of electronic document management.

The Bank's goal is to become a fully digital bank by the end of 2026, to the extent permitted by the current legislation at that time, while maintaining its own business model. To this end, all operating procedures will be optimised, new software products will be introduced to automate all routine procedures, speed up all necessary database checks, and perform settlement operations and financial monitoring procedures as efficiently as possible to maintain high reliability and sufficiently high profitability of the Bank.

The key performance indicators of the Bank are profit, return on assets and capital, capital adequacy, net interest margin and Cost-to-Income Ratio, compliance with mandatory prudential ratios set by the National Bank of Ukraine.

The Strategy and other plans may be reviewed to clarify the key financial market indicators that are a prerequisite for its preparation, and to make appropriate changes in the event of the introduction of new products.

5. THE BANK'S NEED FOR FINANCING.

In view of the special concept and business model of the Bank as a treasury bank, we believe that the Bank does not require additional financing for its activities; its authorized capital is sufficient to meet regulatory requirements for the period of up to 2025.

6. RESOURCES OF THE BANK

The key financial resources of the Bank are the capital and borrowed funds of other banks and clients of the Bank. The authorized capital is over 90% of the Bank's Equity. The high level of capitalization reduces the Bank's sensitivity to risks and provides an opportunity for further development.

The resource base is formed by customer funds, in particular, short-term funds of legal entities and individuals. Despite the predominance of funds in current accounts of customers against the background of concentration of liabilities to major creditors, the lack of a regional network, small number of customers and predictability of their cash flows, as well as a significant amount of highly liquid assets, reduce the Bank's sensitivity to liquidity risk.

The Bank's liabilities, which are mainly formed by funds of economic entities, the small size of the loan portfolio and the structure of its collateral, as well as the high level of capitalization and acceptable level of provisions for active operations reduce the Bank's sensitivity to risks.

Key non-financial resources of the Bank: intellectual capital of the Bank's staff, technological resources. The bank is equipped with premises, office equipment, banking equipment and special technical means to create a security system. The amount of funds invested by the Bank in fixed assets is insignificant.

The Bank is a reliable employer in the financial sector. The year 2023 was marked by martial law, blackouts caused by attacks on the country's energy system, etc. The Bank's team was able to adapt to new complex challenges and changes in the format of work. The volume of banking operations and the quality of work processes were maintained, as evidenced by the financial results for 2023.

Since the beginning of January 2023, the number of the Bank's employees has increased by 2 people or 7% and continues to grow with the expansion of transactional business.

It should be noted that the Bank fulfils its social role for privileged categories of employees (there is 1 employee on maternity leave). The rights of privileged categories of employees in labour relations are reliably protected by the state. The Bank also provides jobs for people with disabilities. As of the end of 2023, there was 1 person with a disability. The system of staff training, assessment and development provides the Bank's employees with the necessary level of professional knowledge and skills on an ongoing basis. In 2023, some of the Bank's employees attended distance learning events held by external training providers. The Bank also worked to create training material available remotely to each employee. Thus, in 2023, employees of all categories and areas of work were covered by the training system.

7. CORPORATE MANAGEMENT REPORT.

7.1. OBJECTIVE OF ACTIVITIES OF THE FINANCIAL INSTITUTION.

According to its Charter, the Bank has the following objectives:

- satisfaction of public needs in banking services;
- attraction, accumulation, provision of movement and redistribution of money supply;
- as well as gaining of profit based on the results of its activities.

7.2. THE CORPORATE GOVERNANCE CODE THE BANK IS GUIDED BY.

The Bank's corporate governance is carried out in accordance not only with the requirements of the current legislation of Ukraine, including the Law of Ukraine "On Banks and Banking Activities", the Law of Ukraine "On Joint Stock Companies", regulations of the National Bank and the NSSMC, but also with the recommendations of the relevant regulators and best international practices and standards relevant to banks of similar size and nature of activities. The main principles, principles and procedures of the Bank's corporate governance are set out in the Bank's Charter, the Bank's Corporate Governance Code and other internal documents of the Bank, which are publicly available on the Bank's website (<https://avgd.ua/about/dokumenty-banku/>)

The Bank's Corporate Governance Code defines the principles of corporate governance in the Bank, the principles of protecting the interests of shareholders, depositors and other stakeholders, the principles of transparency of decision-making, responsibility of the Bank's managers and information openness.

In 2023, the Bank fully complied with the Bank's Corporate Governance Code and the principles specified therein, and no deviations were identified.

The Bank did not make any decisions not to apply any provisions of the Bank's Corporate Governance Code.

The Bank does not have any other corporate governance practices that are applied beyond the requirements set by law, except for the case of implementing the recommendations of the relevant regulators, taking into account the relevant international practices and standards relevant to banks of similar size and nature of activities.

7.3. HOLDERS OF THE SUBSTANTIAL SHAREHOLDING IN THE BANK.

The shareholder of the Bank is WESTAL HOLDINGS LTD (location: Evagora Papachristoforou, 18, PETOUSSIS BUILDING, office 101B, 3030, Limassol, Republic of Cyprus), which has a significant stake in the Bank and at the reporting date, it directly owns 100.00% of the authorized capital of the Bank.

Indirectly, the owners of significant participation in the Bank are:

- Legal Entity ICU HOLDINGS LIMITED (Location: Trident Chambers, PO 146, Road Town, Tortola, British Virgin Islands), which indirectly owns: 100.00% stake in the Bank through 100% stake in the legal entity WESTAL HOLDINGS LTD;
- Legal entity NAREMIUS HOLDINGS LTD (Location: Trident Chambers, PO 146, Road Town, Tortola, British Virgin Islands) which indirectly owns: 50% stake in the Bank through the legal entity ICU HOLDINGS LIMITED, which indirectly owns: 100.00% stake in the Bank through 100% stake in the legal entity WESTAL HOLDINGS LTD;
- Legal entity FILTESA HOLDINGS LTD (Location: Trident Chambers, PO 146, Road Town, Tortola, British Virgin Islands) which indirectly owns: 50% stake in the Bank

through 50% stake in the legal entity ICU Holdings Limited, which indirectly owns:
100.00% stake in the Bank through 100% stake in the legal entity WESTAL HOLDINGS LTD and

A group of persons with common economic interests, namely:

- Individual Stetsenko Kostyantyn, who indirectly owns 50% stake in the Bank through 100% stake in the legal entity NAREMIUS HOLDINGS LTD through the legal entity ICU HOLDINGS LIMITED, which indirectly owns 100% in the Bank through 100.00 % stake in the legal entity WESTAL HOLDINGS LTD; and
- Individual Paseniuk Makar, who indirectly owns 50% stake in the Bank through 100% stake in the legal entity FILTESA HOLDINGS LTD through the legal entity ICU HOLDINGS LIMITED, which indirectly owns 100.00% in the Bank through 100.00 % stake in the legal entity WESTAL HOLDINGS LTD.

There were no changes in the composition of the owners of significant participation during the reporting year.

The Bank's management does not own the Bank's shares. No decisions were made on the repurchase of own shares.

On 22.01.2024, the National Bank temporarily deprived the holders of the Bank's significant shareholding of the voting rights for 6 months, which, in the opinion of the Bank's management, does not affect the financial stability of the Bank and does not create additional risks that may affect the continuity of its operations, since in accordance with the legislation of Ukraine such a measure does not result in the termination of the Bank's activities and does not affect the fulfilment of the Bank's obligations to customers, counterparties and depositors, which are fulfilled by the Bank in a timely manner and within the established timeframe. During the period of temporary deprivation of voting rights of the holders of significant participation, the shareholder's rights and functions will be exercised by a proxy, the appointment and approval of which by the National Bank of Ukraine is expected to be completed within the time limits established by the current legislation of Ukraine and before the expiry of the deadline for the shareholder to consider issues to be considered at the annual general meeting of shareholders. Until the appointment of a proxy is made, the Bank temporarily remains without a supreme management body.

The Bank has established and operates competent, suitable and effective Supervisory Board and Management Board, which, if necessary, consider all issues of the Bank's activities within their competence. In accordance with the legislation and the Bank's Charter, the exclusive competence of the shareholder includes the resolution of strategic issues of the Bank's activities, which are not expected to be resolved within the period of validity of the measure of influence applied to the Bank by the National Bank of Ukraine. This scope of the shareholder's competence does not require the shareholder's day-to-day involvement in the Bank's day-to-day operations and in ensuring the continuity of its business. The vast majority of issues necessary to ensure and maintain the financial stability of the Bank and the continuity of its operations fall within the competence of the Supervisory Board or the Management Board of the Bank.

7.4. THE BANK'S MANAGEMENT SYSTEM.

The supreme governing body of the Bank is the General meeting of the shareholders. The Supervisory board is a collegial body of the Bank that ensures control over the activity of

Management of the Bank, protection of rights of investors, other creditors and shareholders of the Bank according to the charter of the Bank, terms on Supervisory board of the Bank and the current law of Ukraine. The Supervisory board doesn't take part in the current management of the Bank.

According to the current legislation and the Bank's Charter the exclusive competence of the Supervisory Board includes:

- 1) approval of the Regulations on the Bank's Management Board, regulations on the Internal Audit Service, the Risk Management Service, the Compliance Service, the Corporate Secretary, permanent and temporary committees of the Supervisory Board, other internal regulations regulating the activities of the Bank's structural divisions, and other internal documents, the approval of which, in accordance with the requirements of the current legislation of Ukraine, is within the competence of the Supervisory Board; approving the provisions governing the Bank's activities, except for those that fall under the exclusive competence of the General Assembly and those that are submitted to the Bank's Management Board for approval by the decision of the Supervisory Board;
- 2) convening of the General Meeting, preparation and approval of the draft agenda and the agenda of the General Meeting, making a decision on the date of its holding and the inclusion of proposals in the draft agenda, except in the case of shareholders convening an extraordinary General Meeting;
- 3) consideration of the report of the Management Board and approval of measures based on the results of its consideration, decision-making based on the consequences of consideration of the report of the Management Board;
- 4) appointment and termination of powers of the Chairperson and members of the Management Board, as well as decision-making on the quantitative composition of the Management Board;
- 5) appointment and dismissal (termination of powers) of the head of the Bank's Internal Audit Service (internal auditor), Chief Risk Manager, Chief Compliance Manager;
- 6) approving the terms of employment contracts (contracts) concluded with the members of the Management Board, the manager and employees of the Bank's Internal Audit Service, the Chief Risk Manager, the Chief Compliance Manager, establishing the amount of their remuneration, including incentive and compensation payments; determination of the person who will sign contracts (agreements) on behalf of the Bank with the head and members of the Bank's Management Board;
- 7) making a decision to remove the Chairperson of the Management Board or a member of the Management Board from exercising his powers, to elect a person who will temporarily exercise the powers of the Chairperson of the Management Board;
- 8) determination of an auditing firm for conducting an external audit of the Bank, including for conducting an annual audit of financial statements, and approving the terms of the contract concluded with the auditing firm, establishing the amount of payment for services; and the election of a person authorized to sign such an agreement with the subject of audit activity;
- 9) consideration of the conclusion of the Bank's external audit and preparation (provision) of recommendations to the General Meeting for decision-making regarding the conclusion of the external audit;
- 10) making a decision to give consent to the Bank's execution of significant transactions or transactions with an interest in cases established by the legislation of Ukraine.
- 11) election of the Corporate Secretary and approval of the Regulations on the Corporate Secretary;
- 12) creation of temporary and permanent committees of the Supervisory Board, determination of their personnel, powers and other issues of functioning, review of reports (conclusions) of temporary and permanent committees of the Supervisory Board;

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- 13) approval and control over the implementation of the Bank's strategy, business plan, plans for the restoration of the Bank's activities, financing of the Bank in crisis situations, ensuring the continuous operation of the Bank;
 - 14) ensuring the operation and control over the effectiveness of the Bank's comprehensive and adequate internal control system, including the risk management system, internal audit;
 - 15) determination of the Bank's credit policy;
 - 16) control over the elimination of deficiencies identified by the National Bank of Ukraine and other state power and management bodies that, within the scope of their competence, supervise the activities of the Bank, the Internal Audit Service and the audit firm, based on the results of the external audit;
 - 17) determination of remuneration policy in the Bank in accordance with the requirements established by the National Bank of Ukraine, as well as control over its implementation;
 - 18) approval of the regulation on the remuneration of the members of the Management Board; approval of the report on the remuneration of the members of the Management Board;
 - 19) carrying out an annual assessment of the performance of the Bank's Supervisory Board in general and each member of the Bank's Supervisory Board in particular, committees of the Bank's Supervisory Board, assessment of the compliance of the Bank's Supervisory Board's collective suitability to the Bank's size, complexity, volumes, types, nature of operations carried out by the Bank, organizational structure and risk profile the Bank, taking into account the peculiarities of the Bank's activities and/or the activities of the banking group, which the Bank is a part of, as well as taking measures to improve the mechanisms of the Bank's board of operations based on the results of such an assessment;
 - 20) carrying out an annual assessment of the effectiveness of the Bank's Management Board in general and each member of the Bank's Management Board, in particular, the Risk Management Service, the Compliance Service, the Bank's Internal Audit Service, assessing the compliance of members of the Bank's Management Board, the Chief Risk Manager, the Chief Compliance Manager, the Head of the Internal Audit Service with qualifications requirements, assessment of compliance of the collective suitability of the Bank's Management Board with the Bank's size, complexity, volumes, types, nature of operations carried out by the Bank, organizational structure and risk profile of the Bank, taking into account the specifics of the Bank's activities and/or activities of the banking group, which includes the Bank, as well as taking measures on improving the mechanisms of the Bank's Management Board and the Risk Management Service, the Compliance Service, and the Bank's Internal Audit Service based on the results of such an assessment;
 - 21) control over the preparation of the Report on the remuneration of members of the Supervisory Board;
 - 22) exercise of other powers attributed to the competence of the Supervisory Board by the Law of Ukraine "On Joint Stock Companies", current legislation of Ukraine or the Bank's Charter.

The executive body of the Bank is the Management Board, which manages the current activities of the Bank, resolves issues in its competence, determined by the Charter of the Bank, Regulation on the Management Board of the Bank and is responsible for the effectiveness of activity of the Bank according to the current legislation and Charter of the Bank.

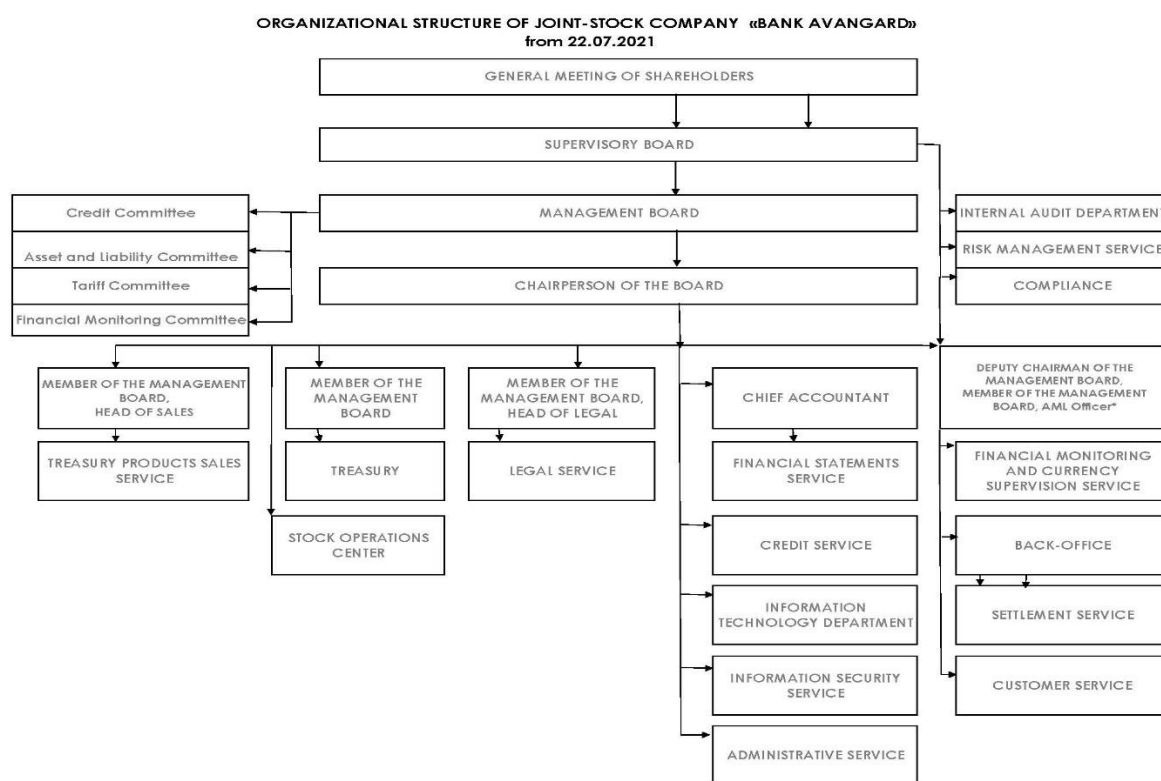
The competence of the Management Board includes resolving all issues related to the management of the Bank's current activities, except for issues that fall within the exclusive competence of the General Meeting and the Supervisory Board of the Bank. General Meeting and Supervisory Board can make a decision regarding transfer of authority to the competence of the Management Board except for authority, referred to by applicable

law of Ukraine and Bank's Charter to exclusive competence of each of the bodies of management of the Bank.

The Management board is accountable to Supervisory Board of the Bank. The Management Board decides on the managing of the Bank's structural divisions, monitors the Bank's compliance with the current legislation of Ukraine; organizes deposit operations for the Bank's cash assets and valuables, accounting and reporting transactions, internal controls and other issues regarding the Bank's activities: reviews and approves the internal documents at the Bank within its competence, decides on the establishment, management and liquidation of the Bank's structural divisions other than those which fall within the exclusive competence of the Supervisory Board, and exercises other powers stipulated by the current legislation of Ukraine.

The Bank's organizational structure is based on the main directions, each of them being dependent to one of the members of the Management Board.

Organisational structure of the Bank as at 31.12.2023



The number of employees of the bank at the end of 2023 is 30 people. The Bank does not plan a significant increase in staff or significant personnel changes. The Bank has no separate structural subdivisions.

As of 31.12.2023, managers and officials of the Bank have sufficient experience in their field of activity, relevant education and proven impeccable business reputation.

The Bank does not have a corporate rights adviser.

7.5. INFORMATION ON THE GENERAL MEETING OF SHAREHOLDERS (MEMBERS) AND GENERAL DESCRIPTION OF THE DECISIONS MADE AT THE MEETINGS.

The sole shareholder of the Bank, the owner of 122,000 units of ordinary registered shares of the Bank, which make up 100% of the authorized capital of the Bank, is: WESTAL HOLDINGS

LTD, a company established and operating in accordance with the legislation of Cyprus, registration number - HE244019 (hereinafter - the "Shareholder").

According to Article 60 of the Law of Ukraine "On Joint Stock Companies" (hereinafter - the Law), the provisions of Articles 40 - 57 of the Law on the procedure for convening and holding general meetings of shareholders do not apply to a company with one shareholder (similar provisions were in previous version of the mentioned law).

The decision of the Shareholder has the status of the minutes of the General Meeting of Shareholders of the Bank.

During 2023, there were no restrictions on the rights of participation and voting of shareholders at the General Meeting of Shareholders of the Bank.

In 2023, the sole shareholder of the Bank made such decisions.

Date	Agenda	Decisions taken
18.01.2023	1. Approval of amendments to the terms and conditions of contracts with members of the Supervisory Board, setting the amount of their remuneration, and election of a person authorised to sign them.	1. To approve amendments to the terms and conditions of the agreements concluded with the Chairman and members of the Supervisory Board of the Bank, as well as the amount of their remuneration. To elect S.A. Korchynska, the Chairman of the Management Board, as the person authorised to sign contracts with the Chairman and members of the Supervisory Board of the Bank.
28.04.2023	1. On consideration of the report (conclusions) of the external audit of the Bank for 2022 and approval of measures based on the results of its consideration. 2. On approval of the Bank's performance results and annual report for 2022. 3. On the distribution of profit for 2022. 4. Approval of the report of the Bank's Supervisory Board for 2022 and approval of measures based on the results of its consideration. 5. Approval of the Report on Remuneration of the Bank's Supervisory Board Members. 6. On taking into account certain recommendations of the National Bank of Ukraine based on the results of an unscheduled inspection of the Bank	1. To approve the report and opinion of the external auditor of AC "CROW UKRAINE" LLC on the results of the audit of the annual financial statements of JOINT STOCK COMPANY "BANK AVANGARD" for 2022 without comments and additional measures. 2. To approve the results of the activities of JOINT STOCK COMPANY "BANK AVANGARD" for 2022, namely the profit in the amount of UAH 3,555,947.53. To approve the annual report (annual financial statements) of JOINT STOCK COMPANY "BANK AVANGARD" for 2022. 3. To distribute the profit of JOINT STOCK COMPANY "BANK AVANGARD" based on the results of activities in 2022 in the amount of UAH 3,555,947.53 as follows - part of the profit in the amount of UAH 177,797.38 to be allocated to the reserve fund of JOINT STOCK COMPANY "BANK AVANGARD"; - to leave part of the profit in the amount of UAH 3,378,150.15 unallocated. 4. To approve the report of the Supervisory Board of JOINT STOCK COMPANY "BANK AVANGARD" for 2022, including the report on the evaluation of the Supervisory Board's activities (attached in Annex 1), without comments and additional measures. To recognize the work of the Supervisory Board in 2022 as satisfactory. 5. To approve the Report on Remuneration of the Members of the Supervisory Board of JOINT STOCK COMPANY "BANK AVANGARD" for 2022 (attached as Annex 2). 6. To take into account some of the NBU Recommendations, namely: - the need to indicate in its future resolutions a detailed description of changes to the terms of contracts and the amount of remuneration to the members of the Bank's Board or to add the relevant changes in the form of

	(hereinafter referred to as the "Recommendations"). 7. Approval of the Regulations on the Bank's Supervisory Board in a new version, taking into account the NBU Recommendations. 8. Approval of the Regulations on Remuneration of Members of the Bank's Supervisory Board in a new wording, taking into account the NBU Recommendations.	additional agreements to the contracts with the members of the Supervisory Board as annexes to such resolutions; - when making decisions on payment of variable remuneration to the members of the Bank's Supervisory Board (if it is provided for in the relevant Regulation on Remuneration of the Bank's Supervisory Board Members), it is necessary to formalise the results of the analysis of compliance with the criteria/conditions and their qualitative assessment set out in the Bank's Remuneration Policy, the Regulation on Remuneration of the Supervisory Board Members and NBU Regulation No. 153. 7. In order to take into account some other recommendations of the NBU, amend the Regulations on the Supervisory Board of JOINT STOCK COMPANY BANK AVANGARD and approve it in a new version (the draft of which is attached as Annex 3). 8. In order to take into account some other recommendations of the NBU, to amend the Regulations on Remuneration of the Supervisory Board Members of JOINT STOCK COMPANY BANK AVANGARD and approve it in a new version, the draft of which was developed and submitted by the Supervisory Board for consideration by the shareholder and is attached as Annex 4.
01.09.2023	1. Approval of amendments to the terms and conditions of contracts with members of the Supervisory Board, setting the amount of their remuneration, and election of a person authorised to sign them.	1. To establish fixed remuneration for the members of the Supervisory Board in the amount in accordance with the Appendix to this resolution, taking into account the best international practices for determining the amount of remuneration of members of supervisory boards of banks; - similar (commensurate) market indicators of the amount and terms of payment of fixed remuneration to the members of the Supervisory Board in Ukrainian banks; - risks assumed by the Bank, financial performance of the Bank and subject to compliance with the Bank's capital requirements, as well as the Bank's liquidity level and compliance (non-breaching) with other economic standards of the Bank; - professional experience, defined functional duties, level of responsibility and the amount of time devoted to the performance of functional duties by the members of the Supervisory Board of the Bank. 2. To approve amendments to the terms and conditions of contracts concluded with the members of the Bank's Supervisory Board (draft of which is attached). 3. To elect S.A. Korchynska, the Chairman of the Management Board, as the person authorized to sign agreements with the Chairman and members of the Supervisory Board of the Bank.
06.10.2023	1. On the distribution of profits for 2019-2022.	1. To distribute the retained earnings of JOINT STOCK COMPANY "BANK AVANGARD" based on the results of activities in 2019-2022 as follows: - the retained earnings of JOINT STOCK COMPANY "BANK AVANGARD" based on the results of activities in 2019 in the amount of UAH 9,713,442.56 shall be used to increase the authorized capital of JOINT STOCK COMPANY "BANK AVANGARD"; - to allocate the retained earnings of JOINT STOCK COMPANY "BANK AVANGARD" based on the results of activities in 2020 in the amount of UAH 9,747,170.18 to

	2. On increasing the Bank's authorised capital. 3. On increasing the nominal value of shares and issuing shares of a new nominal value. 4. On amendments to the Bank's Charter and approval of the Bank's Charter in a new version. 5. On amendments and additions to the Bank's internal documents.	increase the authorised capital of JOINT STOCK COMPANY "BANK AVANGARD"; - to allocate the retained earnings of JOINT STOCK COMPANY "BANK AVANGARD" based on the results of activities in 2021 in the amount of UAH 9,932,646.62 to increase the authorised capital of JOINT STOCK COMPANY "BANK AVANGARD"; - retained earnings of JOINT STOCK COMPANY "BANK AVANGARD" based on the results of activities in 2022: - o in the amount of UAH 2,326,740.64 to be used to increase the authorised capital of JOINT STOCK COMPANY "BANK AVANGARD"; - o part of the profit in the amount of UAH 1,051,409.51 to be left unallocated. 2. To increase the authorised capital of the Bank by UAH 31,720,000.00 at the expense of part of the profit received from the Bank's activities for 2019-2022 by increasing the nominal value of shares. To establish a new amount of the Bank's share capital in the amount of UAH 231,800,000.00. 3. To issue new shares of the Bank with a new nominal value by setting a new nominal value of one share of the Bank in the amount of UAH 1,900.00 and to approve the Resolution on the issue of new shares with a new nominal value. 4. To amend the Bank's Charter and approve the new version of the Bank's Charter attached hereto and authorise the Chairman of the Management Board S.A. Korchynska to sign the new version of the Charter. 5. To amend the Regulations on the General Meeting of Shareholders of the Bank and approve the new version hereof. 6. To amend the Regulations on the Supervisory Board of the Bank and approve the new version hereof.
23.11.2023	1. To terminate the powers of the Supervisory Board members. 2. On election/appointment of a new member of the Supervisory Board. 3. Approval of the terms and conditions of the contract with a member of the Supervisory Board, setting the amount of remuneration, election of a person authorised to sign the contracts.	3. Effective from the date of this resolution and in connection with the decision of the National Bank of Ukraine to approve candidates for the position of a member of the Supervisory Board (shareholder representative) of the Bank, terminate the powers of the following members of the Supervisory Board of the Bank: - Kostiantyn Stetsenko; - Makar Pasiuk. 2. To elect Maksym Grinchenko (Shareholder's representative) as a member of the Supervisory Board of the Bank, who shall take office from the date of signing the relevant agreement with the Bank, subject to approval by the National Bank of Ukraine. 3. To set a fixed remuneration for the member of the Supervisory Board M.V. Grinchenko in the amount in accordance with the Appendix to this resolution and to approve the terms of the contract to be concluded with him (draft attached). To elect S.A. Korchynska, the Chairman of the Management Board, as the person authorized to sign the contract with the member of the Supervisory Board of the Bank.
21.12.2023	1. On the Bank's major transactions.	1. To allow, from 01.01.2024 and until the Shareholder makes another decision cancelling or amending the decision on the first item of this Shareholder resolution: a. the Bank's execution of significant transactions for the amount of up to UAH 500 million each. (inclusive), in respect of: purchase/sale/exchange

		and repurchase of Ukrainian government securities and foreign government securities whose foreign issuers have an official rating not lower than investment grade; purchase/sale of foreign currency; raising funds in the interbank market; raising funds from customers, as well as lending transactions fully secured by cash collateral and/or pledge of property rights to deposits with the Bank. In conducting active operations, the Bank is obliged to comply with the limit of debt to one counterparty (mandatory economic standard H7 set by the National Bank of Ukraine) both during external settlements and during the term of the transaction, except for transactions under agreements that provide for advance payments to the Bank. These restrictions do not apply to transactions on transfer of funds between the Bank's own correspondent accounts (NOSTRO accounts) with correspondent banks, the amount (limits) of balances on which is determined by a separate decision on determining the limit of the correspondent account balance. The decision in this subclause does not apply to transactions with the National Bank of Ukraine b. Significant transactions with the National Bank of Ukraine for the amount of up to UAH 10,000 million (inclusive) each, in respect of: active transactions with the National Bank of Ukraine related to credit risk, including, but not limited to, purchase/sale of deposit certificates of the National Bank of Ukraine, as well as transactions on obtaining refinancing loans from the National Bank of Ukraine (including overnight loans) in accordance with the General Loan Agreement with the National Bank of Ukraine and interest rate swap transactions in accordance with the The General Agreement on Interest Rate Swap Transactions with the National Bank of Ukraine, concluded in accordance with the Shareholder's resolutions, which remain in force and effect.
	2. On the election/appointment of a new member of the Supervisory Board. 3. Approval of the terms and conditions of the contract with a member of the Supervisory Board, setting the amount of remuneration, election of a person authorised to sign the contracts.	2. To elect Hryhorii Ovcharenko (Shareholder's representative) as a member of the Supervisory Board of the Bank, who shall take office from the date of signing the relevant agreement with the Bank, subject to approval by the National Bank of Ukraine. 3. To set a fixed remuneration for the member of the Supervisory Board H.O. Ovcharenko in the amount according to the Appendix to this resolution and to approve the terms of the contract to be concluded with him (draft is attached). To elect S.A. Korchynska, the Chairman of the Management Board of the Bank, as the person authorized to sign the contract with the member of the Supervisory Board.

7.6. SUPERVISORY BOARD OF THE BANK. GENERAL DESCRIPTION OF THE DECISIONS MADE.

The Supervisory Board of the Bank is a collegial body that controls the Management Board, protects the rights of depositors, other creditors and shareholders of the Bank according to the Charter of the Bank and Regulation on the Supervisory board of the Bank and the legislation of Ukraine. The Supervisory board does not take part in current management of the Bank.

The Supervisory Board collectively makes decisions within its competence and ensures the implementation of the decisions of the Supreme Body of the Bank - the General Meeting of Shareholders.

The Supervisory Board reports to the General Meeting of Shareholders on its activities, the general condition of the Bank and the measures taken by it to achieve the goals and strategic goals of the Bank.

The purpose of the Supervisory Board is to represent the interests and protect the rights of Shareholders, ensure the effectiveness of their contributions, promote the Bank's statutory objectives, develop a strategy to increase profitability and competitiveness of the Bank, control the Bank's Management Board. The independence and integrity of the Supervisory Board are necessary prerequisites for fulfilling its role.

As of January 1, 2023, the Supervisory Board of the Bank worked in the following composition:

The Chairperson of the Supervisory Board:	K. V. Stetsenko
Members of the Supervisory Board (shareholder representatives):	M. Y. Paseniuk R. I. Kilmukhametov
Independent Members of the Supervisory Board:	M. V. Stetsenko V. V. Gladun O.M. Kurinnyy

As of December 31, 2023, the Supervisory Board of the Bank worked in the following composition:

Members of the Supervisory Board (shareholder representatives):	M.V. Grinchenko R.I. Kilmukhametov H. O. Ovcharenko
Independent Members of the Supervisory Board:	M.V. Stetsenko V. V. Gladun O.M. Kurinnyy

As of 31.12.2023, the Chairman of the Supervisory Board was not elected. On 11.01.2024, an independent member of the Supervisory Board, Stetsenko M.V., was elected as the Chairman of the Supervisory Board, and Grinchenko M.V. was elected as the Deputy Chairman of the Supervisory Board.

The members of the Supervisory Board have independently familiarised themselves with the content of the Bank's internal documents regarding their rights and obligations.

Changes in the composition of the Supervisory Board during 2023:

- In accordance with the Resolution of the Bank's shareholder dated 23.11.2023, in connection with the decision of the National Bank of Ukraine to approve candidates for the position of a member of the Supervisory Board (shareholder's representative)

of the Bank, the powers of the following members of the Supervisory Board were terminated:

- Konstantin Victorovych Stetsenko;
- Makar Yriovych Paseniuk.
- According to the Resolution of the Bank's Shareholder dated 23.11.2023, Maksym Viktorovych Grinchenko (Shareholder's representative) was elected as a member of the Bank's Supervisory Board.
- In accordance with the Resolution of the Bank's shareholder dated 21.12.2023, Hryhorii Oleksandrovych Ovcharenko (representative of the Shareholder) was elected as a member of the Supervisory Board of the Bank.

As of 31.12.2023, the members of the Supervisory Board have an impeccable business reputation, are not members of the Management Board of the Bank and/or participants or members of the governing bodies of a legal entity that competes with the Bank's activities. In addition, when electing members of the Supervisory Board, a thorough analysis of candidates is carried out to ensure that they do not have a conflict of interest, as well as other factors that, in accordance with the current legislation of Ukraine, would prevent them from holding positions in the Supervisory Board.

In order to ensure the independence of the Supervisory Board, independent members of the Supervisory Board are elected to the Supervisory Board, which is confirmed by the absence of any significant business, family or other ties with the Bank, members of the Management Board or a shareholder of the Bank, and such independent members are not representatives of the state.

The Chairperson and Members of the Supervisory Board have higher education and significant experience in the financial sector, make informed decisions, which demonstrates their competence and efficiency and is confirmed by the Bank's performance during the reporting year.

The organisational form of the Supervisory Board is a meeting. The Supervisory Board may also make decisions by absentee voting (by survey). During 2023, the Supervisory Board made decisions in accordance with the competence defined by the Bank's Charter and the Regulation on the Supervisory Board.

During 2023, the Supervisory Board held 8 meetings, including joint meetings with the Management Board, and in the period between the meetings of the Supervisory Board, 14 decisions were made without convening meetings by absentee voting (survey) of the Supervisory Board members. All meetings of the Supervisory Board held were duly constituted.

During 2023, the Supervisory Board carried out activities/decisions in the following areas:

1. Deciding on the Bank's transactions.
2. Selecting the audit firm and determining the terms of the agreement to be concluded with it, setting the amount of payment for its services.
3. Consideration of the Auditor's report on the audit of internal control and compliance with the anti-money laundering programme.
4. Approval and review of the Bank's internal documents provided for by the current legislation of Ukraine, including the Remuneration Policy and the Regulations on Remuneration of the Management Board Members and Influential Persons as part of the control over the implementation of the Remuneration Policy.

5. Reviewing quarterly reports of the Management Board on the results of the Bank's financial and business activities, as well as the annual report;
6. Reviewing reports on assessment of all risks to which the Bank is exposed and assessment of the effectiveness of the risk management system and internal control system, as well as on the banking group with the Bank's participation;
7. Making decisions on improvement of the risk management system and internal control system;
8. Resolving other issues within the exclusive competence of the Supervisory Board in accordance with the current legislation of Ukraine and the Bank's Charter.

During 2023, no committees of the Supervisory Board were established. On 11.01.2024, the Bank's Supervisory Board Committees were established, namely the Audit Committee and the Nomination and Remuneration Committee.

In accordance with the current version of the Bank's Charter, the Supervisory Board consists of the Chairman and other members of the Supervisory Board (hereinafter referred to as the Supervisory Board members). In accordance with the Bank's Charter, the number of members of the Supervisory Board shall be six (6) persons. The members of the Supervisory Board may not be members of the Management Board of the Bank, as well as hold other positions in the Bank under the terms of an employment agreement (contract) or provide services to the Bank in accordance with a civil law contract.

The Supervisory Board shall consist of at least one third of independent members of the Supervisory Board, and the number of such members shall be at least three. 11.01.2024 An independent member of the Supervisory Board, Stetsenko M.V., was elected as the Chairman of the Supervisory Board.

An independent member of the Supervisory Board is a member of the Supervisory Board who is not influenced by other persons in the decision-making process while performing the duties of an independent member of the Supervisory Board. The requirements for persons who cannot be considered independent members of the Supervisory Board shall be established by the legislation of Ukraine.

At least half of the members of the Supervisory Board, including the Chairman of the Supervisory Board, must have at least three years of experience in the banking and/or financial sector.

Members of the Supervisory Board must have a higher education degree, meet the requirements of the current legislation of Ukraine, as well as qualification requirements for professional aptitude and business reputation, and not have citizenship (nationality) of a state that carries out armed aggression against Ukraine. The National Bank of Ukraine shall determine the compliance of professional suitability and business reputation in accordance with the procedure provided for by the current legislation of Ukraine.

The members of the Supervisory Board shall meet the qualification requirements throughout the entire period of holding their respective positions, and the independent members of the Supervisory Board shall also meet the requirements for their independence.

Members of the Supervisory Board are elected and appointed by the General Meeting of Shareholders of the Bank.

Only an individual may be a member of the Supervisory Board. Members of the Supervisory Board may be independent members of the Supervisory Board, shareholders of the Bank and representatives of the Bank's shareholders. An individual with full civil capacity may be a member of the Supervisory Board.

Members of the Supervisory Board shall be elected exclusively by cumulative voting in accordance with the procedure established by the current legislation of Ukraine, except in cases where the Bank is owned by one person. Candidates for members of the Supervisory Board shall be submitted to the General Meeting by the Bank's shareholders.

When electing members of the Supervisory Board, along with information on each candidate (details of the shareholder, size of the shareholding), the ballot for cumulative voting shall contain information on whether such candidate is a shareholder, representative of a shareholder or a group of shareholders (with information on such shareholder or shareholders), or a candidate for the position of an independent member. A member of the Supervisory Board elected as a representative of a shareholder or a group of shareholders may be replaced by such shareholder or group of shareholders at any time.

Members of the Supervisory Board shall be elected by shareholders during the General Meeting for a term not exceeding three years.

If the number of members of the Supervisory Board whose powers are valid is less than half of its total composition determined by the General Meeting in accordance with the requirements of the law, the Bank shall convene an extraordinary General Meeting within three months to elect the remaining members of the Supervisory Board, and in case of election of members of the Supervisory Board by cumulative voting - to elect the full composition of the Supervisory Board of the Bank.

Persons elected as members of the Supervisory Board may be re-elected an unlimited number of times.

The powers of a member of the Supervisory Board elected by cumulative voting may be terminated early by the decision of the General Meeting only if the powers of the entire Supervisory Board are simultaneously terminated. In this case, the decision to terminate the powers of the members of the Supervisory Board shall be taken by the General Meeting by a simple majority of votes of shareholders who have registered for participation in the meeting and hold shares voting on the relevant issue. The provisions of this paragraph shall not apply to the right of the shareholder(s) whose representative(s) is/are elected to the Supervisory Board to replace his/her representative - a member of the Supervisory Board.

The Chairperson and members of the Supervisory Board of the Bank shall take office after their approval by the National Bank of Ukraine, unless otherwise provided by the current legislation of Ukraine.

A member of the Supervisory Board may not be a member of the Management Board of the Bank at the same time, as well as hold other positions in the Bank under the terms of an employment contract. A member of the Supervisory Board may not be the head, official and / or member of the board of a bank or other governing body of another bank registered in Ukraine, except as provided by the legislation of Ukraine.

A member of the Supervisory Board must perform his / her duties personally and may not delegate his / her powers to another person. Members of the Supervisory Board may be remunerated for their activities. The procedure for payment of remuneration to members of the Supervisory Board is established in accordance with the legislation of Ukraine.

Chairperson of the Supervisory Board

The Chairperson of the Supervisory Board is elected by the members of the Supervisory Board from among them by a simple majority of votes from the number of members of the Supervisory Board. The Supervisory Board has the right to re-elect the Chairperson of the Supervisory Board at any time. A member of the Supervisory Board who was the Chairperson

of the Management Board during the previous year may not be elected Chairperson of the Supervisory Board.

Chairperson of the Supervisory Board:

- organizes the work of the Supervisory Board, convenes its meetings and chairs them;
- approves the agenda of the Supervisory Board meetings;
- organizes keeping minutes of meetings of the Supervisory Board;
- organizes work on creation of committees of the Supervisory Board, nomination of members of the Supervisory Board to the composition of these committees, as well as coordinates the activities, relations of the committees among themselves and with other bodies and officials of the Bank;
- prepares a report and reports to the General Meeting on the activities of the Supervisory Board, the general condition of the Bank and the measures taken by it to achieve the objectives of the Bank;
- maintains constant contacts with other bodies and officials of the Bank;
- exercises other powers provided by the current legislation and the Charter of the Bank and necessary to ensure the work of the Supervisory Board,
- exercises other powers provided by the Charter, the Regulations on the Supervisory Board, current legislation and necessary to ensure the work of the Supervisory Board.

If it is impossible for the Chairperson of the Supervisory Board to perform his / her powers, one of the members of the Supervisory Board shall exercise his / her powers upon its decision.

Members of the Supervisory Board have the right to:

- 1) participate in the meetings of the Management Board of the Bank;
- 2) receive complete, reliable and timely information about the Bank, necessary for the performance of its functions;
- 3) get acquainted with the Bank's documents, receive their copies, as well as copies of the documents of the Bank's subsidiaries. The above information and documents shall be provided to the members of the Supervisory Board within 5 (five) days from the date of receipt by the Bank of the relevant request addressed to the Chairperson of the Management Board of the Bank;
- 4) require, if necessary, the convening of extraordinary meetings of the Supervisory Board of the Bank;
- 5) provide written comments on the decision of the Supervisory Board of the Bank.

Responsibilities of the members of the Supervisory Board:

- 1) to act in the interests of the Bank in good faith and reasonably and do not exceed its authority; The obligation to act in good faith and prudence means the need to show the integrity, prudence and due diligence that a person would hold in such a position in such circumstances.
- 2) to be guided in its activities by the current legislation of Ukraine, the Bank's Charter and other documents of the Bank;
- 3) comply with the decisions adopted by the General Meeting and the Supervisory Board of the Bank;

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- 4) to participate personally in the meetings of the Supervisory Board and in the work of the committees of the Supervisory Board. Inform in advance about the impossibility to participate in the meetings of the Supervisory Board, indicating the reason for absence;
 - 5) to adhere to the rules and procedures established by the Bank for concluding transactions in which there is an interest (conflict of interest);
 - 6) to comply with all rules established by the Bank related to the regime of circulation, security and storage of information with limited access. Do not disclose confidential and insider information, as well as information that constitutes a bank secret, which became known in connection with the performance of the functions of a member of the Supervisory Board, persons who do not have access to such information, and use it in their interests or interests third parties;
 - 7) to notify the Supervisory Board and the Management Board of the Bank in writing within 3 (three) days of the loss of the Bank's shareholder status;
 - 8) to refrain from actions that may lead to the loss of an independent member of the Supervisory Board of its independence. In case of loss of independence, a member of the Supervisory Board is obliged to notify the Supervisory Board and the Management Board of the Bank in writing within 3 (three) days;
 - 9) timely provide the General Meeting, the Supervisory Board with complete and accurate information on the activities and financial condition of the Bank.

As at 31.12.2023 members of the Supervisory Board meet the requirements for professional suitability and business reputation established by the Law of Ukraine "On Banks and Banking" and regulations of the National Bank, the Charter and internal documents of the Bank, and independent members of the Supervisory Board also meet the independence requirements of Ukraine "On Joint Stock Companies".

As at 31.12.2023 members of the Supervisory Board have sufficient knowledge, skills and experience to effectively perform their functions, they have no conflict of interest (including potential) and signs of lack of impeccable business reputation, as well as enough time to perform their functions, taking into account responsibilities each member of the Supervisory Board of the Bank.

Remuneration to the members of the Supervisory Board is paid in accordance with the Regulation on Remuneration of the Supervisory Board Members of the Bank in the amount determined by the decisions of the General Meeting of Shareholders of the Bank (decisions of the sole shareholder) and disclosed in the Bank's Annual Financial Statements for 2023 (Note 25 "Administrative and other operating expenses"). All members of the Supervisory Board are paid a fixed remuneration at the market level, including bonuses for performing the functions of the Chairman and Deputy Chairman of the Supervisory Board.

In 2023, remuneration to the members of the Supervisory Board (6 persons) was paid in cash in the amount of UAH 1,740 thousand (2022: UAH 580,401 thousand), broken down as follows: variable - UAH 117 thousand (2022: UAH 580,087 thousand), fixed - UAH 1,623 thousand (2022: UAH 314 thousand). In-kind remuneration to the members of the Supervisory Board was paid in the form of insurance payments under a voluntary liability insurance contract in the amount of UAH 396 thousand (2022: UAH 295 thousand).

In 2023, no variable remuneration was paid to the members of the Supervisory Board in non-monetary instruments. The remuneration was not postponed and paid on time. The Bank did not exercise the right to reduce/cancel/refund the variable remuneration previously paid to the members of the management body and influential persons. The deficiencies in the remuneration regulations identified by the National Bank of Ukraine were taken into

account and improved in accordance with the recommendations provided by the National Bank of Ukraine.

The main performance evaluation criteria used to calculate the variable part of the remuneration are as follows: professional and business qualities, performance results, complexity of the tasks performed and to be performed, level of professional experience and organisational responsibility in view of job duties, as well as qualification, complexity, volume and quality of work performed, and efforts made. The following criteria were also taken into account when assessing the performance: size, specifics of the Bank's activities, nature and scope of banking and other financial services, risks assumed by the Bank (the Bank's risk profile), level of systemic importance of the Bank and activities of the banking group of which the Bank is a part, compliance/implementation of the Bank's strategy, business plan, budget and risk appetite declaration, financial position of the Bank, performance of the Bank (achievement of planned performance indicators), and subject to compliance with the Bank's capital requirements, as well as the adequacy of the Bank's liquidity level and compliance with other prudential ratios established in accordance with the current legislation of Ukraine.

On 01.09.2023, the Bank's sole shareholder decided to amend the terms of contracts with members of the Supervisory Board, namely, to establish a fixed remuneration, taking into account: the best international practices for determining the amount of remuneration of members of the supervisory boards of banks, market indicators of the amount and terms of payment of such remuneration, risks taken by the Bank, financial performance of the Bank and compliance with capital, liquidity and other prudential requirements, as well as professional experience, defined functional responsibilities, level of responsibility and the amount of time devoted to the performance of functional duties by members of the Supervisory Board.

The ratio of the average remuneration of a member of the executive body and the Board to the average remuneration of the Bank's employees (excluding members of the Management Board) is 1.8.

The report on remuneration of the Supervisory Board members is attached as a separate document.

Based on results of verification of compliance of the Chairperson and members of the Supervisory Board set by current law of Ukraine, was carried out by the bank in December 2023:

- 1) members of the Supervisory Board of the Bank have university degree and significant experience in the financial sector, make informed decisions, which indicates their competence and efficiency, which is confirmed by the results of the Bank's activities during the reporting year.
- 2) members of the Supervisory Board of the Bank meet the requirements of current legislation of Ukraine, as well as qualification requirements for professional suitability and business reputation throughout their tenure, and independent members of the Supervisory Board also meet the requirements for their independence.
- 3) members of the Supervisory Board of the Bank don't have the citizenship of the country that conducts the armed aggression against Ukraine.
- 4) members of the Supervisory Board are not members of the Management Board of the Bank.
- 5) members of the Management Board are not members of the Supervisory Board of the Bank.

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- 6) members of the Supervisory Board of the Bank have an impeccable business reputation, are not members or members of the governing bodies of a legal entity that competes with the activities of the Bank.
 - 7) The facts of violation of internal documents by the members of the Supervisory Board of the Bank, which led to damage to the Bank or the Bank's clients, have not been revealed.
 - 8) The facts of application of measures of influence by public authorities to the members of the Supervisory Board of the Bank have not been revealed.
 - 9) The facts of the existence, including potential, of a conflict of interest, which would not have been declared and / or for which appropriate measures would not have been taken, have not been revealed.

The report of the Supervisory Board for 2023 is attached as a separate document.

7.7. THE MANAGEMENT BOARD OF THE BANK. GENERAL DESCRIPTION OF THE DECISIONS TAKEN.

The Management Board is a permanent collegial executive body of the Bank, which manages the current activities of the Bank, resolves issues within the competence defined by the Bank's Charter, Regulations on the Management Board and current legislation of Ukraine and is responsible for the Bank's efficiency in accordance with current legislation and the Charter.

The competence of the Management Board includes resolving all issues related to the management of the current activities of the Bank, except for issues that fall within the exclusive competence of the General Meeting and the Supervisory Board of the Bank. The General Meeting and the Supervisory Board may decide to transfer part of their powers to the competence of the Management Board, except for the powers referred to by the current legislation of Ukraine and the Bank's Charter to the exclusive competence of each of these Bank management bodies.

As of 01.01.2023, the Management Board of the Bank consisted of the following members:

The Chairperson of the Management Board:	Korchynska S. A.
The Deputy Chairperson of the Management Board:	Dvorzhanska I. Y.
The members of the Management Board:	Burovsky A. S. Kokodynskyi V. O.

There were no changes in the composition of the Management Board in 2023.

The organisational form of the Management Board's work is meetings at which it made decisions in 2023 in accordance with the competence defined by the Bank's Charter and the Regulations on the Management Board.

During 2023, 52 meetings of the Management Board were held, including joint meetings with the Bank's Supervisory Board. All meetings of the Management Board held were duly constituted.

During 2023, the Management Board carried out activities / made the following, but not exclusively, decisions in the following areas:

1. Consideration of the Bank's Development Strategy for 2023-2025, the Bank's Business Plan for 2023-2025, the budget of the Internal Audit Service, Risk Management Service and Compliance Service for 2023 approved by the Supervisory Board;
2. Review of the Bank's financial performance;
3. Approval of the list of persons related to the Bank;
4. Making charitable contributions;
5. Consideration of financial results reports;
6. Consideration of reports on general risk assessment of the Bank;
7. Consideration of reports on the results of further internal control based on the results of monitoring of the internal control system;
8. Review of the effectiveness of the operational risk management system (ORMS) and the internal control system based on the results of the monitoring;
9. Review of the General Non-Financial Risk Assessment Report for 2022;
10. Consideration of reports of the responsible officer for financial monitoring;
11. Consideration of the report on the correctness of risk limit calculations;
12. Approval of the Schedule of internal follow-up control of the Bank;
13. Consideration of the audit report;
14. Consideration of the effectiveness of the adequacy of the measures taken by the Bank to ensure the functioning of an appropriate risk management system and internal control system in the field of legalisation (laundering) of proceeds of crime, terrorist financing and/or financing of proliferation of weapons of mass destruction;
15. Approval of the Internal Audit Service's Report on the results of validation of risk assessment models and back-testing results;
16. Consideration of the Report on the activities of the Internal Audit Service;
17. Consideration of the report on the assessment of the level of compliance risk;
18. Setting the interest rate on the Bank's Series A and Series B bonds;
19. Approval of the Report of the Management Board of JOINT STOCK COMPANY BANK AVANGARD on the results of the Bank's financial and economic activities for 2022 (including the report on the evaluation of the Management Board's activities);
20. Consideration of the Report on Control over Transactions with Members of the Banking Group and the Banking Group's Report;
21. Approval of Risk Limits;
22. Recognition of receivables as uncollectible and write-off at the expense of provisions.
23. Resolving other issues within the competence of the Management Board in accordance with the current legislation of Ukraine and the Bank's Charter.

The Management Board consists of: The Chairperson of the Management Board, the Deputy Chairperson(s) of the Management Board and the members of the Management Board. The Board is headed by the Chairperson of the Board. According to the Bank's Charter, the number of members of the Management Board must be at least 5 (five). The decision on the number of members of the Management Board is made by the Supervisory Board of the Bank.

The Chairperson of the Management Board, Deputy Chairperson of the Management Board, and other members of the Management Board may be any individual who has full legal capacity, is not a member of the Supervisory Board, is an employee of the Bank and meets other requirements of current legislation of Ukraine. Members of the Management Board must have a complete higher education in economics, management or law; experience in the banking system in the relevant specialty for at least three years; impeccable business reputation, and must not have the citizenship of the country that conducts military aggression against Ukraine.

The Chairperson of the Management Board, the Deputy Chairperson of the Management Board and other members of the Management Board are elected to office and may be dismissed or suspended from office by decision of the Supervisory Board. The decision to elect the Chairperson of the Management Board, the Deputy Chairperson of the Management Board and other members of the Management Board shall be made by the Supervisory Board in accordance with the procedure established by the Charter and internal documents of the Bank.

The Chairperson of the Management Board takes office after approval by the National Bank of Ukraine. The National Bank of Ukraine determines the compliance of the professional suitability and business reputation of other members of the Management Board or persons who perform their duties for more than one month.

The Board is elected for an indefinite term, unless otherwise determined by the decision on appointment, the Charter or the legislation of Ukraine.

Termination of powers of members of the Management Board. The powers of the Chairperson of the Management Board, the Deputy Chairperson of the Management Board and other members of the Management Board shall be terminated by a decision of the Supervisory Board. The grounds for termination of powers of the Chairperson of the Management Board, the Deputy Chairperson of the Management Board and other members of the Management Board shall be established by the current legislation of Ukraine.

The Chairperson of the Management Board is elected by the Supervisory Board. The powers, rights and responsibilities of the Management Board are determined by the current legislation of Ukraine, the Charter and the Regulations on the Management Board.

The Chairperson of the Management Board manages the work and organizes the work of the Management Board, convenes meetings, ensures the keeping of minutes of meetings.

The Chairperson of the Management Board has the right, in particular, but not exclusively:

- To act on behalf of the Bank without a power of attorney, including: to represent the interests of the Bank in state institutions, enterprises of all forms of ownership and public organizations, in all law enforcement and regulatory agencies; perform transactions on behalf of the Bank and perform all legally significant actions; enter into and sign agreements, contracts;
- To represent the Bank without a power of attorney, including in relations with other business entities and individuals both in Ukraine and abroad;
- To issue a power of attorney on behalf of the Bank; distribute responsibilities among the members of the Management Board of the Bank;
- To issue orders and issue orders that are binding on all employees of the Bank; to hire and dismiss employees of the Bank, take measures to encourage them and impose disciplinary sanctions in accordance with current legislation of Ukraine, the Charter and internal documents of the Bank;

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- To establish forms, systems and procedures for remuneration of the Bank's employees in accordance with the current legislation of Ukraine, approve the staffing of the Bank and staffing of separate divisions, determine the amount of salaries of all employees of the Bank;
 - To sign a collective agreement on behalf of the Bank; approve job descriptions of the Bank's employees;
 - To take measures for pre-trial settlement of disputes, sign lawsuits, complaints and all documents related to court hearings of claims and complaints, represent the Bank in the courts with all rights granted by law to the plaintiff, defendant, third party, including fully or partially waive claims, recognize the claim, change the subject of the claim, enter into an amicable agreement, appeal the court decision, submit an executive document for recovery or issue a power of attorney to take appropriate action to another person;
 - To participate in the meetings of the Supervisory Board with the right of advisory vote;
 - To perform other functions necessary to ensure the current activities of the Bank.

The Chairperson of the Management Board is personally responsible for the activities of the Bank. The Chairperson of the Management Board cannot head the structural divisions of the Bank.

In case of temporary absence of the Chairperson of the Management Board, the acting Chairperson of the Management Board may be assigned to the Deputy Chairperson of the Management Board on the basis of an order of the Chairperson of the Management Board. A person temporarily entrusted with the duties of the Chairperson of the Management Board for the period of his absence has all the powers of the Chairperson of the Management Board of the Bank provided by the legislation of Ukraine, the Charter and Regulations of the Management Board, including acting without a power of attorney on behalf of the Bank's enterprises and organizations.

In case the Chairperson of the Management Board is not appointed, the Acting Chairperson of the Management Board shall be appointed by the Supervisory Board.

Members of the Management Board have the right:

- 1) to receive complete, reliable and timely information about the Bank, necessary for the performance of their functions;
- 2) independently and as part of the Management Board to resolve issues of operational management of the Bank, which are related to their powers and functional responsibilities;
- 3) to make proposals, participate in the discussion and vote on the agenda of the Management Board meetings;
- 4) to initiate the convening of meetings of the Management Board;
- 5) to provide written comments on the decision of the Management Board;
- 6) to demand the convening of extraordinary meetings of the Supervisory Board;
- 7) to receive a fair remuneration for the performance of the functions of a member of the Management Board, the amount of which is set by the Supervisory Board.

Responsibilities of the members of the Management Board:

- 1) to act in the interests of the Bank in good faith, reasonably and within the limits of its powers;

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- 2) to be guided in its activities by the current legislation of Ukraine, the Charter, these Regulations, other internal documents of the Bank;
 - 3) implement the decisions adopted by the General Meeting and the Supervisory Board;
 - 4) to participate personally in the meetings of the Management Board (including remotely), as well as be present at the General Meeting at the invitation of the Chairperson of the Supervisory Board or the person convening them. In case of impossibility to be present at the General Meeting, to notify in advance the person from whom the invitation was received, indicating the reasons for such impossibility;
 - 5) be present at the meetings of the Supervisory Board at the invitation of the Chairperson or a member of the Supervisory Board. In case of impossibility to be present at the meeting of the Supervisory Board, to notify in advance the person from whom the invitation was received, indicating the reasons for such impossibility;
 - 6) be a member of the Bank's credit committees in accordance with the procedures established by the Bank;
 - 7) when concluding transactions with the participation of the Bank, in the commission of which there is an interest or the presence of a conflict of interest, to comply with the legally established rules and requirements for concluding such transactions;
 - 8) comply with the rules established by the Bank related to the regime of circulation, security and storage of information with limited access. Not to disclose bank secrets, confidential and insider information, which became known through the performance of the functions of a member of the Management Board to persons who do not have access to such information, as well as to use it in their own interests or in the interests of others;
 - 9) to prepare timely for the meetings of the Management Board, in particular, get acquainted with the materials prepared for the meeting, collect and analyse additional information, if necessary, receive expert advice, etc.;
 - 10) to manage certain designated areas of the Bank's activity and direct the activities of the Bank's subordinate structural subdivisions in accordance with the division of responsibilities between the members of the Management Board;
 - 11) to provide timely the General Meeting, the Supervisory Board, all members of the Management Board, internal and external auditors of the Bank with complete and accurate information on the activities and financial condition of the Bank.

The functional responsibilities of each member of the Management Board are determined by the relevant job description, agreement (contract) concluded with him, orders and directives of the Chairperson of the Management Board.

During 2023, the Bank had such committees of the Management Board

- Credit Committee
- Tariff Committee
- Assets and Liabilities Management Committee
- Committee on Financial Monitoring

Composition of committees as of 31.12.2023

- Credit Committee:
 - o Chairperson: Kokodynskyi V.O.
 - o Deputy Chairperson of the Committee: Burovsky A.S.

Members: Korchynska S.A., Dvorzhanska I.Y., Krohmal Y.Y.

In 2023, 60 meetings of the Bank's Credit Committee were held. All meetings of the Committee were duly constituted.

During 2023, the Credit Committee carried out activities / made the following, but not exclusively, decisions in the following areas:

1. Monitoring of credit risk by loan portfolio;
 2. Consideration of the classification of active transactions and credit risk components (EAD, PD, LGD, CCF) for calculating credit risk, as well as the amount of credit risk on the Bank's active transactions; classification of financial instruments with the definition of PD, LGD, CCF for calculating the allowance for impairment of financial instruments, the valuation model for financial assets and financial liabilities under IFRS 9, as well as the amount of allowance for impairment of financial instruments.
 3. Consideration of information on determining the fair value of securities subject to forward contracts and their revaluation;
 4. Determination of the fair value of securities subject to forward contracts and their revaluation;
 5. Recognising receivables as uncollectible and writing them off against provisions;
 6. Making decisions on credit projects and other issues in accordance with the Regulations on the Credit Committee.
- Tariff Committee:
- o Chairperson: Kokodynskyi V.O.
 - o Deputy Chairperson of the Committee: Burovsky A.S.
 - o Members: Korchynska S.A., Dvorzhanska I.Y., Krohmal Y.Y.

In 2023, 10 meetings of the Bank's Tariff Committee were held. All meetings of the Committee were duly constituted.

During 2023, the Tariff Committee carried out activities / made the following, but not exclusively, decisions in the following areas:

1. Analysis of the cost of services and market competitiveness of existing tariffs;
 2. Approval of tariff packages for certain customers/categories of customers;
 3. Decisions were made on other issues in accordance with the Regulations on the Tariff Committee.
- Assets and Liabilities Management Committee:
- o Chairperson: Kokodynskyi V.O.
 - o Deputy Chairperson of the Committee: Burovsky A.S.
 - o Members: Korchynska S.A., Dvorzhanska I.Y., Krohmal Y.Y.

In 2023, 21 meetings of the Bank's Assets and Liabilities Management Committee were held. All meetings of the Committee were duly constituted.

During 2023, the Assets and Liabilities Committee carried out activities / made the following, but not exclusively, decisions in the following areas:

1. Analysis of structural liquidity, information on weighted average interest rates for attracting and placing resources, factor analysis of interest rate risk, liquidity risk assessment, interest rate risk assessment of the banking book, market risk assessment, concentration risk assessment, monitoring of early warning indicators of liquidity crisis and risk management recommendations;
2. Analysis of terms and conditions for attracting deposits for individuals and legal entities;

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3. Changes in interest rates on deposits of legal entities and individuals;
 4. Decisions were made on other issues in accordance with the Regulations on the Assets and Liabilities Management Committee.
- Financial Monitoring Committee:
 - o Chairperson: Dvorzhanska I.Y.
 - o Members: Starostenko O.V., Velychko V.A., Tarasenko N.V., Kokodynskyi V.O.

In 2023, the Bank's Financial Monitoring Committee held 9 meetings. All meetings of the Committee were duly constituted.

During 2023, the Financial Monitoring Committee carried out activities/decisions in the following areas:

1. On the results of monitoring of business relations with customers, which revealed suspicious activities of customers, and proposals for taking necessary measures in relation to such customers to minimise ML/TF risks.
2. On issues related to proposals to refuse to continue business relations with customers (including in the event that the customer is assessed as having an unacceptably high risk level).
3. Concerning problematic issues arising in the course of customer due diligence activities at the Bank.
4. Changes in the AML/CFT legislation of Ukraine and the Bank's taking of necessary measures in connection with such changes (in particular, updating the Bank's internal documents on anti-money laundering/anti-terrorist financing) with indication of the timeframe for taking such measures).
5. On the results of the assessment of new banking products/services and their inherent ML/TF risks.
6. On problematic issues arising during training activities for the Bank's employees on financial monitoring.
7. Problematic issues related to the establishment of business relations with PEPs and/or their servicing.
8. On other issues related to the Bank's compliance with the requirements of the legislation of Ukraine in the field of combating money laundering/terrorist financing that require consideration.

The Chairperson and members of the Management Board meet the qualification requirements for professional suitability and business reputation established by the Law of Ukraine "On Banks and Banking activity" and regulations of the National Bank, the Charter and internal documents of the Bank. The collective suitability of the Bank's Management Board corresponds to the size, peculiarities of the Bank's activity, nature and volumes of banking and other financial services, the Bank's risk profile, the Bank's systemic importance and the activities of the banking group of which the Bank is a part.

The Chairperson and members of the Management Board have sufficient knowledge, skills and experience to effectively perform their functions, they have no conflict of interest (including potential) and signs of lack of impeccable business reputation, as well as enough time to perform their functions taking into account the responsibilities of each member of the Management Board of the Bank.

The results verify that the Chairperson and members of the Board of the legislation of Ukraine the requirements made by the Bank in December 2023:

1. The Chairperson and members of the Management Board of the Bank have university degree and significant experience in the financial sector, make informed decisions, which indicates their competence and efficiency, which is confirmed by the results of the Bank's activities during the reporting year.
2. The Chairperson and members of the Management Board of the Bank shall meet the requirements of the current legislation of Ukraine, as well as the qualification requirements for professional suitability and business reputation during the entire period of holding the relevant positions.
3. The Chairperson and members of the Management Board of the Bank don't have the citizenship of the country that conducts the armed aggression against Ukraine.
4. The Chairperson and members of the Management Board are not members of the Supervisory Board of the Bank.
5. The Chairperson and members of the Management Board are not members of the Supervisory Board of the Bank.
6. The Chairperson and members of the Management Board of the Bank have an impeccable business reputation, are not members or members of the governing bodies of a legal entity that competes with the activities of the Bank.
7. The facts of violation of internal documents by the Chairperson and members of the Management Board of the Bank, which led to damage to the Bank or the Bank's clients, have not been revealed.
8. The facts of application of measures of influence by public authorities to the Chairperson and members of the Management Board were not revealed.
9. The facts of the existence, including potential, of a conflict of interest, which would not have been declared and / or for which appropriate measures would not have been taken, have not been revealed.
10. The facts listed in paragraph 85 of the Regulation on Financial Monitoring regarding the responsible employee for financial monitoring have not been identified.

Remuneration to the members of the Management Board is paid in accordance with the Regulations on Remuneration of the Management Board of the Bank, in the amount in accordance with the decisions of the Supervisory Board of the Bank, as disclosed in the Bank's Annual Financial Statements for 2023 (Note 25 "Administrative and other operating expenses").

In 2023, remuneration to the members of the Management Board (4 persons) was paid in cash in the amount of UAH 12,767 thousand (2022: UAH 12,188 thousand), broken down as follows: variable - UAH 3,708 thousand (2022: UAH 3,569 thousand), fixed - UAH 9,059 thousand (2022: UAH 8,619 thousand).), as well as in-kind payments in the form of insurance premiums: under the voluntary liability insurance agreement in the amount of UAH 264 thousand (2022: UAH 197 thousand), under the voluntary medical insurance agreement in the amount of UAH 68 thousand (2022: UAH 68 thousand), and under the non-state pension agreement in the amount of UAH 48 thousand (2022: UAH 48 thousand).

In 2023, no variable remuneration was paid to the members of the Management Board in the form of non-monetary instruments. The remuneration was not postponed and paid on time. There were no facts of the Bank's use of the right to reduce/cancel/refund the variable remuneration previously paid to the members of the management body, influential persons.

The imperfections in the terms of the remuneration regulations identified by the National Bank of Ukraine were taken into account and improved in accordance with the recommendations provided by the National Bank of Ukraine.

The main performance evaluation criteria used to calculate the variable part of the remuneration are as follows: professional and business qualities, performance results, complexity of tasks performed and in progress, level of professional experience and organisational responsibility in view of job responsibilities, as well as qualifications, complexity, volume and quality of work performed, and efforts made. The following criteria were also taken into account when assessing performance: size, specifics of the Bank's activities, nature and scope of banking and other financial services, risks assumed by the Bank (the Bank's risk profile), level of systemic importance of the Bank and activities of the banking group of which the Bank is a part, compliance/implementation of the Bank's strategy, business plan, budget and risk appetite declaration, financial position of the Bank, performance of the Bank (achievement of planned performance indicators), structural unit and employees, and subject to compliance with the Bank's capital requirements, as well as the sufficiency of the Bank's liquidity level and compliance with other prudential standards of the Bank established in accordance with the current legislation of Ukraine.

The ratio of the average remuneration of a member of the executive body and the board to the average remuneration of the Bank's employees (excluding the members of the Management Board) is 1.8.

The report on remuneration of the Management Board members is attached as a separate document.

There were no facts of violation of internal rules by the Management Board members that caused damage to the Bank or the Bank's customers.

The Management Board Report for 2023 is attached as a separate document.

7.8. RISK MANAGEMENT SYSTEM OF THE BANK.

This block sets out the Issuer's objectives and policies for financial risk management, including policies for ensuring each major type of forecast transaction for which hedging transactions are used, as well as information on the Issuer's exposure to price risk (market risk, interest rate risk of the banking book), credit risk, liquidity risk and/or cash flow risk.

The Bank's risk management system is aimed at ensuring the implementation of business goals in accordance with the Bank's development strategy and increasing its value, optimizing the ratio of potential opportunities and risks, capital size and growth rates of the Bank.

The main tools for achieving these goals are the Bank's comprehensive risk management system, which provides for the coordination of actions of all departments within a single strategy for risk management, approved by the Supervisory Board of the Bank. The formation of a comprehensive system is aimed at maximizing the concentration of risk management functions in the Bank, the continuous process of analysing the situation and environment in which risks arise, and making management decisions to influence the risks themselves and / or the level of vulnerability (exposure) to such risks.

The Bank's risk management system is based on the principles and recommendations of the Basel Committee set by the regulatory authorities.

The division of functions and powers in risk management covers all organizational levels and divisions of the Bank. The principal structure of the Bank's risk management provides for the

participation of the Supervisory Board, the Management Board, profile committees, the Risk Management Service and structural subdivisions of the Bank in the risk management process.

General control over the implementation of risk management in the Bank is carried out by the Supervisory Board of the Bank, the implementation of the risk management system is carried out by the Management Board of the Bank.

The Assets and Liabilities Management Committee determines the optimal balance sheet structure, plans financial performance indicators and monitors their performance, considers the cost of funding sources, controls liquidity risk, bank book interest rate risk and market risks.

The Credit Committee manages credit and investment activities and monitors credit risks associated with individual clients and the credit and investment portfolio as a whole.

The Tariff Committee regulates commission revenues and analyses the competitiveness of current tariffs.

The Financial Monitoring Committee ensures the implementation of the Bank's policy on risk management of money laundering / terrorist financing.

The Risk Management Department and the Head of the Risk Management Department (Chief Risk Manager) carry out a quantitative and qualitative assessment of operational risks to which the Bank is exposed or which may arise in the future, monitors the status and amount of risks.

The Compliance Service and the Head of the Compliance Service (Chief Compliance Manager) carry out a quantitative and qualitative assessment of compliance risks to which the Bank is exposed, or which may subsequently arise in its activities, monitors the status and size of risks.

The Bank performs quantitative and qualitative assessment of risks to which the Bank is exposed, or which may arise in the future in its activities, monitors the status and extent of risks, namely:

- credit risk;
- liquidity risk;
- interest rate risk of the banking book;
- market risk;
- operational risk;
- compliance risk;
- other significant risks (reputation, strategic, risk of professional activity in the stock market)

The Bank has approved an internal document that defines the aggregate amount of risk appetite, the types of risks that the Bank will accept or avoid in order to achieve its business goals, and the level of risk appetite for each of them (individual level) - the Risk Appetite Declaration for 2023-2024 (decision of the Supervisory Board, Minutes No. 4 dated 27.04.2023), hereinafter referred to as the Declaration.

The Bank's Declaration reflects:

- the Bank's main approaches to risk management;
- the aggregate level of risk appetite and types of risks that the Bank intends to accept and hold in order to achieve its business goals;
- the maximum level of risk acceptable for the Bank (Risk Capacity), based on available resources (capital and liquidity needs) and taking into account the need

- to comply with the requirements of the National Bank of Ukraine, obligations to investors, depositors, other creditors and shareholders;
- quantitative and qualitative indicators of the Bank's risk appetite, which are determined taking into account the Bank's compliance with the established regulatory capital and liquidity ratios;
 - level of risk appetite for each type of risk (individual level), which is the basis for setting limits, as well as a minimum list of quantitative and qualitative indicators of risk appetite for each type of risk;
 - approaches and a list of assumptions used by the Bank in determining risk appetite indicators;
 - types of risks that the Bank should avoid;
 - internal and external factors and restrictions affecting the Bank's risk taking.

The Bank's Supervisory Board has set an aggregate (total) risk appetite level of 7% of the Bank's regulatory capital, which is consistent with the Bank's business model.

The Internal Audit Department assesses the adequacy of the Bank's risk management systems.

The structural divisions of the Bank carry out operational management of risks associated with their activities, according to the established levels of tolerance to risks and limits, and are responsible for the results of the acceptance of these risks. The revision of the risk management system is improved by the Bank on an ongoing basis and timely updating of the internal regulatory framework is provided in case of changes in legislative, regulatory or regulatory requirements, organizational structure of the Bank and changes in the Bank's risk tolerance.

The Bank has not established a revision commission and does not have an auditor position. The Bank does not adopt a separate policy for insurance of each major type of projected transaction, however, the Bank uses the following measures to reduce (minimise/neutralise/mitigate) risks and eliminate negative consequences of risks:

- risk reduction (limitation, diversification, hedging);
- retention of risk (provisioning);
- risk avoidance (refusal to perform transactions).

Significant risk factors that affected the activities of the financial institution during the year:

- Internal:

Weaknesses: small amount of capital; low risk appetite (significantly reduces profitability during the period of systemic reduction of interest rates in the market); limited opportunities to open new direct correspondent accounts; narrow specialisation (limits the ability to offer comprehensive customer service); lack of established mechanisms for attracting new customers; underutilisation of the Bank's production capacity due to lack of transaction volumes; growth of CIR; the Bank's brand is used by the paid media to discredit the founders.

Strengths: Bank of the XXI century (by its philosophy); high quality assets; narrow specialisation (MM, FX, FI); high liquidity and capital adequacy ratios; well-known brand of the Bank's owner, its success story and excellent business reputation; state-of-the-art IT and information security architecture; international certificates of compliance of the quality management system and information security management system; availability of a full range of necessary licences for banking, foreign exchange and securities transactions, optimal organisational structure and high operational efficiency; low risk appetite (improves the quality of assets and

reliability of the Bank as a whole); low CIR value; the ability to attract new customers through a new sales channel – a mobile application; highly professional staff.

- External:

Threats: political and economic instability; military aggression by the Russian Federation; inability of some borrowers to service their loans; deterioration of payment discipline due to the suspension of operations of many enterprises; loss of income sources by individuals (including refugees), forced change of residence of millions of Ukrainian citizens; imperfection of the country's judicial system; frequent changes in the legislation on regulation of banking activities; decrease in the level of yield of government bonds may lead to the introduction of new products that, in addition to higher yield, will have a higher level of risk; decline in business activity of customers and potential counterparties against the background of military aggression by the Russian Federation; obstruction of business activity due to possible blackouts caused by attacks on the energy system; artificial deterioration of the Bank's business reputation by paid media against the background of an imperfect judicial system may limit the Bank's ability to expand business relations.

Opportunities: a "niche" in the banking services market free from competitors (especially in terms of currency forwards, operations with government bonds, etc.); use of all opportunities provided by the existing licences; established long-term business relations with clients and counterparty banks; successful operations throughout the entire period of its existence strengthen the Bank's credibility; development of digital technologies and transition to electronic document management increase the speed and reliability of the Bank's services and their competitiveness; transactional nature of the business allows the development of high-tech products; synergistic effect of cooperation with the ICU Group broker on transactions with government bonds of private investors.

7.9. SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT OF THE ISSUER.

The Bank has built an effective system of internal control (hereinafter - the system of internal control or SIC) and risk management of the issuer, which consists of:

- process integration (introduction of control into processes);
- risk assessment on a regular basis;
- development and implementation of measures, with further evaluation of their effectiveness.

The main principles of the Bank's internal control system are:

- efficiency and effectiveness - is the organization of an ongoing process implemented in the current activities of the Bank and understandable at all levels of the Bank;
- early risk prevention is to ensure effective risk management;
- division of responsibilities, which is to ensure the avoidance of a situation in which one person exercises full control over the function or direction of the Bank (separation of the control function from the Bank's operations);
- comprehensiveness, covering all areas of the Bank's activities;
- timeliness, which is the establishment of the SIC, which provides an opportunity to obtain information about the threat of losses of the Bank before such losses are incurred;
- independence, which consists in the separation of the functions of evaluating the effectiveness of the SIC and the functions of its organization and implementation;
- confidentiality - preventing the disclosure of information to persons who do not have the authority to obtain it.

For effective implementation of the Bank's activities, continuous control is established over:

- compliance with the legislation, regulations and standards of professional activity by the Bank's employees;
- prevention of conflicts of interest;
- ensuring an appropriate level of reliability, which corresponds to the nature and scale of the Bank's operations and minimization of banking risks.

The subjects of the Bank's internal control system are:

- Supervisory Board of the Bank;
- Management Board of the Bank;
- Internal Audit Service;
- Head of Risk Management Service (Chief Risk Manager) and Risk Management Service;
- Head of the Compliance Service (Chief Compliance Manager) and the Compliance Service;
- Chief Accountant and his deputies (if any);
- Heads and employees of the Bank's divisions (Services) who exercise internal control in accordance with the powers defined by the Bank's internal documents (regulations, technological maps, regulations, job descriptions, regulations on structural / separate divisions of the Bank, decisions of collegial bodies and Bank management).

The structure of the Bank's internal control system includes:

- Risk identification and assessment, which includes the identification and analysis of significant risks in order to identify control measures/procedures for risk management.
- Control measures/control procedures - actions necessary to minimize risks (determined by the Bank's internal documents). The Bank's control measures operate at all organizational levels, in the performance of any functions of the Supervisory Board, the Bank's Management Board, managers and employees of the Services.
- Information / reporting and communication - information on identified risks must be documented and transmitted in a timely manner:
 - To the Supervisory Board and the Management Board of the Bank for making management decisions;
 - To subdivisions/authorized employees of the Bank responsible for risk minimization and control to improve the system of internal control and control procedures, staff training, control procedures, drawing conclusions and proposals to the Bank's management to improve control.
- Monitoring, which will allow to assess the quality and effectiveness of the internal control system.

The Bank implements the functioning of the internal control system by:

- control of the Bank's management (Supervisory Board and Management Board of the Bank) over compliance with the legislation of Ukraine and the Bank's internal procedures (compliance);
- distribution of responsibilities in carrying out the Bank's activities;
- control over the functioning of the risk management system;
- control over information security and information exchange;
- introduction of internal control procedures;
- monitoring the effectiveness of the SIC;
- introduction of internal audit procedures.

The organizational structure of the Bank is structured in such a way as to clearly define the duties, powers, functions and responsibilities in the areas of conducting, evaluating and managing internal control provided for in the regulations on the Bank's governing bodies, divisions and job descriptions.

The Management Board of the Bank ensures the development of regulations on all structural divisions of the Bank and submits them for approval to the Supervisory Board of the Bank.

The Chairperson of the Management Board of the Bank ensures the development and approval of job descriptions for all employees of the Bank, while providing a full description of all functions, tasks and responsibilities of employees.

Regulations governing the implementation of processes/operations of the Bank, regulations, banking products, as well as descriptions of all processes of the Bank with technological maps determine the distribution of responsibilities during the implementation of processes/operations of the Bank, including on the implementation of internal control.

The Management Board of the Bank implements internal control procedures in all areas of the Bank's activity, in all processes and at all levels, including thanks to staff training in the basics and rules of building a system of internal control and risk management, including compliance, information security and financial monitoring.

The Bank implements and maintains a process of independent assessment of the adequacy of internal control through the introduction of internal audit procedures.

The Bank has introduced a management information system and a reporting system for internal control and risk management.

Processes of control over the functioning of the internal control system include periodic review of the results of monitoring the effectiveness of the internal control system (at least once a quarter) by the Bank's management - the Board and the Supervisory Board of the Bank (including but not limited to risk management and exchange of information, in compliance with the legislation of Ukraine and the internal procedures of the Bank/compliance).

The Bank has the following forms of control:

- **Preliminary control** - is carried out before the Bank's operations;
- **Current control** - is carried out during the Bank's operations and includes control over compliance with legislation, internal documents of the Bank on the implementation of these operations, the correctness of data in the Bank's software, the procedure for deciding on their implementation, control over complete, timely and reliable reflection of operations in accounting and reporting, control over the preservation of the Bank's assets.
- **Further control**, which is carried out after the Bank's operations and consists in checking the validity and correctness of operations, compliance of documents with the established forms and requirements for their execution, compliance of employees with their job descriptions, identification of causes and deficiencies and identification of measures. elimination, control over the implementation of planned performance indicators defined in the Bank's development strategy, its business plans and budget, verification of completeness and reliability of financial, statistical, management, tax and other reporting data generated by the Bank.
- **Internal audit control** - conducting a scheduled audit by the Internal Audit Service to independently assess and control the effectiveness of the internal control system, the

implemented system of management and control of banking risks, as well as the quality of process organization, operations by process participants, etc.

The Bank has implemented a three-tier system of internal control:

The first level - heads and employees of the Bank's divisions (control over daily operations), including the Bank's Management Board and its profile committees;

The second level - Risk Management Service and Compliance Service (when creating a system for monitoring the effectiveness of internal control systems and verification within the internal control monitoring system);

The third level - Internal Audit Service (periodic inspections of the Bank's activities and assessment of the effectiveness of internal control systems).

7.10. THE QUALITY MANAGEMENT SYSTEM.

The Bank regularly analyses the Quality Management System (hereinafter referred to as «QMS») in accordance with the requirements of the Regulations on the Quality Management System of JSC BANK AVANGARD. During the analysis are considered:

- status of actions based on the results of the preliminary QMS analysis;
- changes in external and internal factors for the reporting period related to QMS;
- information on the effectiveness of QMS, taking into account:
 - customer satisfaction, which is assessed monthly by compiling customer ratings on various indicators;
 - the degree of achievement of QMS goals for the reporting period;
 - effectiveness of processes and compliance of banking products, which are based on the conclusions of users on the quality and timeliness of management reporting;
 - discrepancies were identified and corrective actions were applied, which were recorded in the reports on the results of further control of the internal control system, incident database;
 - results of monitoring and measurement of QMS, which are recorded in the reports on the results of further control of the internal control system;
 - results of audits (inspections);
 - effectiveness of external service providers
- adequacy of resources to ensure the functioning and development of QMS;
- assessment of the effectiveness of controls determined by the results of non-financial risk assessment;
- results of monthly credit and liquidity risk assessments;
- results of quarterly stress testing of all types of risks;
- opportunities to improve the quality of the Bank's processes and products.

According to the results of the analysis of the Quality Management System for 2023 it is established:

- organization and functioning of QMS of JSC "BANK AVANGARD" do not require any significant changes;
- availability of QMS resources is at a sufficient level;
- areas of QMS improvement can be identified:
 - further introduction of automation of transactions and reduction of processing time of client payment orders;
 - spreading the use of electronic document management in banking products;
 - introduction of feedback mechanisms for external and internal clients of the Bank's processes;
 - introduction of additional controls over the processes in which the realized risk was recorded;
 - conducting external training to study the requirements of ISO 19011.

7.11. INTERNAL AUDIT SERVICE.

The Internal Audit Service is an independent structural subdivision of the Bank, is a component of the internal control system and is subordinated to and accountable to the Supervisory Board of the Bank. As of 01.01.2023, the division of the Internal Audit Service has 2 employees, including the Head of the Internal Audit Service.

In 2023, the Internal Audit Service carried out the following work:

- Conducting inspections in accordance with the approved Audit Plan for 2023;

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- Support of external audit to confirm the annual financial statements in accordance with international standards (AC CROWE UKRAINE, LLC);
 - Preparation of quarterly reports to the Management Board and the Supervisory Board;
 - Incident database monitoring;
 - Other current work.

In 2023, the Internal Audit Service conducted thematic inspections in accordance with the annual plan approved by the Supervisory Board. All scheduled inspections have been performed. During the audits, increased attention was paid to the effectiveness of the internal control system and banking operations, in the implementation of which the Bank may be exposed to significant risks.

Based on the results of audits in 2023, several recommendations were made. An Action Plan was drawn up and approved to implement the recommendations provided by the Bank's Internal Audit Service. As of the date of this report, all recommendations that are due for implementation have been implemented, the rest of the recommendations are implemented by the Bank's management in accordance with the established deadlines.

The Bank's internal regulations governing internal audit procedures meet the requirements of the NBU regulations, in particular, the Resolution of the National Bank of Ukraine № 311 of May 10, 2016 "On approval of the Regulation on the organization of internal audit in banks of Ukraine." Internal audit procedures are carried out in compliance with the requirements of the Bank's internal documents and the requirements of the NBU regulations.

7.12. EXTERNAL AUDITOR OF THE BANK.

By the decision of the Bank's Supervisory Board (Decision No. 11 dated 28.09.2023), the external auditor, the audit firm - AC CROW UKRAINE LLC, was selected to provide services for the confirmation of the Bank's financial statements for 2023. General information on AC CROW UKRAINE LLC:

- total experience of auditing activities - more than 15 years;
- number of years during which AC «CROWE UKRAINE» LLC provides audit services to the Bank – 4th year;
- there were no cases of conflict of interest and / or combination of internal auditor functions during the period of cooperation with the Bank.
- there were no penalties applied to AC «CROWE UKRAINE» LLC by the Audit Chamber of Ukraine during the year and the facts of submission of inaccurate reports of the financial institution, confirmed by the audit opinion, revealed by the bodies that carry out state regulation of financial services markets;
- there were no recommendations of the bodies that carry out state regulation of financial services markets regarding the audit opinion.

During 2023, CROWE UKRAINE LLC also reviewed the Bank's interim financial statements as at 30.06.2023 in accordance with international standards. Based on the results of the review, it was concluded that the interim financial information provides true and fair information about the Bank's financial position as at 30 June 2023, and its financial performance and cash flows for the I six months ended on that date in accordance with IAS 34 Interim Financial Reporting and the requirements of the Law of Ukraine On Accounting and Financial Reporting in Ukraine on the preparation of financial statements.

7.13. MAIN PRINCIPLES OF THE ISSUER'S INFORMATION DISCLOSURE POLICY.

The Bank shall disclose regular and special information about the Bank as an issuer in the form, to the extent and within the time limits established by the current legislation of Ukraine, including regulations of the National Securities and Stock Market Commission, including by

- 1) posting it on the website of a capital markets participant and/or a professional participant of organised commodity markets;
- 2) submitting it to the National Securities and Stock Market Commission.

Regular information about the issuer is annual and interim reporting information on the results of the issuer's financial and economic activities, which is disclosed in the capital markets and organised commodity markets, including by submitting it to the National Securities and Stock Market Commission.

The reporting period for preparing annual information on the issuer is a calendar year. Annual information about the issuer is regulated information and must be disclosed by the issuer no later than 30 April of the year following the reporting year. The annual information on the issuer is posted on the Bank's official website and is publicly available for at least 10 years after its disclosure.

The reporting period for the preparation of interim issuer information is a quarter. Interim issuer information is prepared as of the end of the last day of the quarter. Interim information about the issuer is regulated information and must be disclosed by the issuer no later than the last day of the month following the reporting month, except for interim consolidated financial statements, which must be disclosed no later than the last day of the second month following the reporting month. Interim information about the issuer shall be posted on the Bank's official website and shall be publicly available for at least 10 years after its disclosure.

Terms, procedure and forms of disclosure of special information about the issuer and additional information contained in such information are established by the National Securities and Stock Market Commission.

7.14. CORPORATE SECRETARY.

The Corporate Secretary is an officer responsible for implementation of high standards of corporate governance in the Bank's activities, effective current interaction of the Bank with shareholders and other investors, maintaining effective work of the Supervisory Board and the General Meeting of the Bank, ensuring effective cooperation between the Bank, the Supervisory Board and the Bank's shareholders, as well as performing other functions in accordance with the laws of Ukraine and the Bank's Charter.

The activities of the Corporate Secretary shall be controlled and regulated by the Supervisory Board of the Bank in accordance with the laws of Ukraine, the Bank's Charter, the Regulation on the Supervisory Board and this Regulation.

The Corporate Secretary shall be subordinate to the Supervisory Board and shall be independent in the performance of his/her functions: he/she may not be a member of any governing bodies of the Bank or related to the Bank, except for the performance of the functions of the Corporate Secretary.

An employment or civil law contract shall be concluded with the Corporate Secretary, which may be exclusively paid. The terms of such agreement shall be approved by the

Supervisory Board of the Bank. The agreement shall be signed on behalf of the Bank by a person authorised by the Supervisory Board of the Bank.

The election and termination of powers of the Corporate Secretary shall be carried out by the Supervisory Board of the Bank. The term of office of the Corporate Secretary shall be determined by resolution of the Supervisory Board. If such term is not determined by the resolution of the Supervisory Board or the Bank's Charter, the term of office of the Corporate Secretary shall be established until its termination in accordance with the resolution of the Supervisory Board. The same person may be elected as the Corporate Secretary more than once.

The powers of the Corporate Secretary shall be effective from the date of his/her appointment and shall be terminated from the date of appointment of a new Corporate Secretary or from the date of termination of the powers of the Corporate Secretary in cases provided for by the Regulation on the Corporate Secretary and the current legislation of Ukraine.

A person elected to the position of the Corporate Secretary shall meet the following requirements

- complete higher education;
- impeccable business reputation;
- experience in corporate governance;
- absence of real or potential conflicts of interest that may interfere with the proper performance of duties;
- managerial skills and abilities, communication and personal qualities that allow holding the position of Corporate Secretary.

The Supervisory Board shall review the proposal for the Corporate Secretary and, if necessary, arrange for verification of the information provided, and hold preliminary negotiations with the candidate on the performance of the functions of the Corporate Secretary.

The decision to elect and terminate the powers of the Corporate Secretary shall be made by the Supervisory Board by a simple majority of votes in accordance with the procedure provided for by the Charter and the Regulations on the Supervisory Board.

The powers of the Corporate Secretary may be terminated by the Supervisory Board at any time and for any reason, or the Corporate Secretary may be temporarily suspended from exercising his/her powers. The decision of the Supervisory Board to terminate the powers of the Corporate Secretary shall be the basis for termination of the agreement concluded with the Corporate Secretary. The resolution on termination of powers shall set out the grounds for termination of powers of the Corporate Secretary.

Without a resolution of the Supervisory Board, the powers of the Corporate Secretary shall be terminated early:

- 1) at his/her request, subject to two weeks' written notice to the Bank;
- 2) in case of inability to perform the duties of the Corporate Secretary for health reasons;
- 3) in case of entry into force of a verdict or court decision by which he/she is sentenced to punishment that excludes the possibility of performing the duties of the Corporate Secretary;
- 4) in the event of death, recognition as incapacitated, partially incapacitated, missing or deceased;

5) in other cases provided for by the Bank's Charter and/or applicable laws of the Bank.

No other official of the Bank may be the Corporate Secretary.

The competence of the Corporate Secretary shall include:

- 1) ensuring compliance of the corporate governance system, the Charter and internal documents of the Bank with the best corporate governance practices and requirements of the legislation of Ukraine; providing the Bank's bodies with conclusions and developing proposals for improving corporate governance, bringing the Bank's internal documents and procedures in line with the Corporate Governance Code and requirements of the legislation of Ukraine;
- 2) providing information to shareholders and/or investors, other interested parties on the Bank's activities, as well as providing the Bank's Charter, internal regulations (including amendments thereto), other documents, in cases provided for by the laws of Ukraine, for review by persons entitled to do so in accordance with the laws of Ukraine;
- 3) cooperate with the Chairman of the Supervisory Board, assist the Supervisory Board, committees of the Supervisory Board (if established) in performing their duties by acting as a secretary, providing assistance and advice, providing all resources necessary for the performance of their functions;
- 4) developing, amending and submitting for consideration and approval by the Supervisory Board the annual plan of meetings of the Supervisory Board;
- 5) ensuring preparation, convening and holding of the General Meeting, performing the functions of the Secretary of the General Meeting and drawing up the minutes of the General Meeting;
- 6) preparing and holding meetings of the Supervisory Board, committees of the Supervisory Board (if established), acting as the Secretary of the Supervisory Board, drawing up minutes/decisions of the Supervisory Board meetings;
- 7) organising the process of self-assessment of the Supervisory Board and its members, preparing questionnaires, processing and summarising data, providing information on the results of self-assessment to the Supervisory Board;
- 8) ensuring compliance with the procedures for assessing professional suitability and business reputation of the Bank's managers, including members of the Management Board and the Supervisory Board, and individual employees of the Bank, as well as with the requirements for collective suitability;
- 9) developing, approving and submitting for approval the regulations on remuneration of the Supervisory Board and its annual review, organising compliance with the requirements for reporting on remuneration of the Supervisory Board, the Management Board, and the Bank's key executives;
- 10) providing advisory and practical assistance to the Bank's shareholders, including explaining to shareholders their rights, reviewing shareholders' requests; organising work with the Bank's shareholders on the issue of shares, formation and accounting of the Bank's share capital, transactions with the Bank's shares, payment of dividends, etc;
- 11) organising preparation of the Bank's public information and ensuring its publication on the Bank's own website; ensuring preparation and disclosure of special and regular information in accordance with the established procedure;
- 12) taking measures within its competence to prevent corporate conflicts;

13) participate in preparation or draft explanations for shareholders or investors regarding the exercise of their rights, respond to shareholders' or investors' requests;

14) prepare extracts from the minutes of the meetings of the Supervisory Board and the General Meeting of the Bank and certify them;

15) reporting to the Supervisory Board on the results of its activities;

16) perform other functions provided for by the applicable laws and the Bank's Charter.

The Corporate Secretary shall have the right of access to any documents of the Bank within their competence.

The Corporate Secretary shall independently organise his/her work in accordance with the plans and current tasks.

The Supervisory Board may appoint a person to temporarily perform the duties of the Corporate Secretary in case of his/her temporary absence (business trip, leave, temporary disability, etc.).

The Corporate Secretary Khodak O.Y. was elected (appointed) by the Supervisory Board of the Bank for the position from 27.07.2023 (Resolution of the Supervisory Board of the Bank No. 4 dated 13.07.2023). The Corporate Secretary is an officer of the Bank, is not a member of any governing bodies of the Bank, and is not affiliated with the Bank, except for the performance of the functions of the Corporate Secretary.

Report of the corporate secretary:

- On the performance of tasks and duties by the corporate secretary:

During 2023, the Corporate Secretary:

1) ensured compliance of the corporate governance system, the Charter and internal documents of the Bank with the best corporate governance practices and requirements of the legislation of Ukraine;

2) assisted the Supervisory Board in fulfilling its duties by performing the functions of the Secretary, provided assistance and advice, and provided all resources necessary to perform its functions;

3) ensure preparation and drafting of resolutions of the Bank's sole shareholder;

4) prepare and hold meetings of the Supervisory Board, act as the Secretary of the Supervisory Board, draw up minutes/decisions of the Supervisory Board meetings;

5) ensure organisation of the process of self-assessment of the Supervisory Board and its members, preparation of questionnaires, processing and summarisation of data, provision of information on the results of self-assessment to the Supervisory Board;

6) ensure compliance with the procedures for assessing the professional suitability and business reputation of the Bank's managers, including members of the Management Board and the Supervisory Board, and individual employees of the Bank, as well as the requirements for collective suitability;

7) participate in the preparation of the Bank's public information and ensure its disclosure on the Bank's website; ensure preparation and disclosure of special and regular information in accordance with the established procedure;

8) prepare extracts from the minutes of the Supervisory Board meetings and certify them.

- On compliance by the Bank's management bodies with internal corporate procedures:

In 2023, the Bank's governing bodies complied with the Bank's internal corporate procedures and the Bank's Corporate Governance Code.

The Bank's governing bodies ensured:

- o adherence to transparent decision-making rules and procedures,
- o adherence to the principles of effective management and proper reporting and internal control systems,
- o increasing the value of the Bank's assets, maintaining financial stability and profitability.

The Management Board ensured that the Bank's activities complied with the requirements of the legislation, decisions of the sole shareholder and the Supervisory Board of the Bank.

The Bank's managers adhered to the duties of care and loyalty to the Bank in accordance with the laws of Ukraine, sought to achieve financial transparency of the Bank and improve the efficiency of the Supervisory Board and the Management Board.

- On the Bank's compliance with the requirements of the legislation on disclosure of information as an issuer of securities:

In accordance with the requirements of the Regulation on Disclosure of Information by Securities Issuers, approved by the NSSMC Resolution No. 2826 dated 03.12.2013, the Bank ensured timely disclosure of regular and special information of the Bank, namely

1. Regular (interim) information of the Bank:

- Interim information of the issuer of securities for the 1st quarter of 2023 (date of registration of the electronic document by the issuer 28.04.2023, original registration number of the electronic document No. 2);
- Interim information of the issuer of securities for the 2nd quarter of 2023 (date of registration of the electronic document by the issuer 28.07.2023, original registration number of the electronic document No. 1);
- Interim information of the issuer of securities for the 3rd quarter of 2023 (date of registration of the electronic document by the issuer 30.10.2023, original registration number of the electronic document No. 1);
- Interim information of the issuer of securities for the 4th quarter of 2023 (date of registration of the electronic document by the issuer 26.01.2024, original registration number of the electronic document No. 1).

Regular (interim) information was published on the Bank's official website and submitted to the NSSMC in accordance with the procedure established by law.

2. Special information of the Bank:

- Special information (information on mortgage securities, certificates of the real estate fund) of the issuer (information on approval of the report on remuneration of the members of the Supervisory Board) (date of registration of the electronic document by the issuer 28.04.2023, original registration number of the electronic document No. 4);
- Special information (information on mortgage securities, certificates of the real estate fund) of the issuer (information on approval of the report on remuneration of the members of the Management Board) (date of registration of the electronic document by the issuer 28.04.2023, original registration number of the electronic document No. 3);

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- Special information (information on mortgage securities, certificates of the real estate fund) of the issuer (change of the issuer's officials) (date of registration of the electronic document by the issuer 24.11.2023, original registration number of the electronic document No. 1);
 - Special information (information on mortgage securities, certificates of the real estate fund) of the issuer (decision to grant consent to enter into significant transactions) (date of registration of the electronic document by the issuer 22.11.2023, original registration number of the electronic document No. 1);
 - Special information (information on mortgage securities, certificates of the real estate fund) of the issuer (change in the composition of the issuer's officials) (date of registration of the electronic document by the issuer 22.12.2023, original registration number of the electronic document No. 2).

Special information was published on the Bank's official website and submitted to the NSSMC in accordance with the procedure established by law.

- On development or amendment of internal documents regulating the Bank's activities:

The draft Regulation on the Corporate Secretary of the Bank was developed and approved by the Bank's Supervisory Board on 17.08.2023 (Resolution of the Bank's Supervisory Board No. 6 dated 17.08.2023).

- Other:
 1. During 2023, the sole shareholder of the Bank, WESTAL HOLDINGS LTD, made 6 decisions.
 2. In 2023, 8 meetings of the Supervisory Board were held, including joint meetings with the Management Board, and 14 decisions were made between meetings of the Supervisory Board without convening meetings by absentee voting (polling) of the Supervisory Board members.
 3. Processing of incoming correspondence from the National Bank of Ukraine, preparation of draft responses and memos to support the Bank's activities.
 4. Work was carried out to bring the Charter of JOINT STOCK COMPANY BANK AVANGARD, Regulations on the General Meeting of JOINT STOCK COMPANY BANK AVANGARD, Regulations on the Supervisory Board of JOINT STOCK COMPANY BANK AVANGARD, Regulations on the Management Board of JOINT STOCK COMPANY BANK AVANGARD in line with the version of the Law of Ukraine "On Joint Stock Companies", which came into force on 01.01.2024.

7.15. SIGNIFICANT TRANSACTIONS.

By the Shareholder's resolution dated 21.12.2023, it is allowed from 01.01.2024 and until the Shareholder makes another resolution cancelling or amending the decision on the first issue of this Shareholder's resolution:

- a) execution by the Bank of significant transactions each for the amount of up to UAH 500 million. (inclusive), including: purchase/sale/exchange and repurchase of Ukrainian government securities and foreign government securities whose foreign issuers have an official rating not lower than investment grade; purchase/sale of foreign currency; raising funds in the interbank market; raising funds from customers, as well as lending operations fully secured by cash collateral and/or pledge of property rights to deposits with the Bank. In conducting active operations, the Bank is obliged to comply with the limit of debt to one counterparty (mandatory economic

standard H7 set by the National Bank of Ukraine) both during external settlements and during the term of the transaction, except for transactions under agreements that provide for advance payments to the Bank. These restrictions do not apply to transactions on transfer of funds between the Bank's own correspondent accounts (NOSTRO accounts) with correspondent banks, the amount (limits) of balances on which is determined by a separate decision on determining the limit of the correspondent account balance. The decision in this subclause does not apply to transactions with the National Bank of Ukraine.

- b) Significant transactions with the National Bank of Ukraine for the amount of up to UAH 10,000 million (inclusive) each, regarding: active transactions with the National Bank of Ukraine related to credit risk, including, but not limited to, transactions of purchase/sale of deposit certificates of the National Bank of Ukraine, as well as transactions of obtaining refinancing loans from the National Bank of Ukraine (including overnight loans) in accordance with the General Loan Agreement with the National Bank of Ukraine and interest rate swap transactions in accordance with the The General Agreement on Interest Rate Swap Transactions with the National Bank of Ukraine, concluded in accordance with the Shareholder's resolutions, which remain in force and effect.

7.16. RELATIONS WITH SHAREHOLDERS AND RELATED PARTIES, THE IMPACT OF THESE RELATIONS ON THE PERFORMANCE RESULTS AND THEIR MANAGEMENT.

During 2023, the Bank conducted transactions with related parties on general terms and conditions. Transactions with related parties are mainly of a resource nature.

The Bank did not have any lending transactions with the Bank's shareholders and owners of significant interest in the Bank.

At the beginning of 2023, the Bank repaid a loan from a shareholder for banking activities, and the credit limit agreement will last until 2025, which provides the Bank with additional financial stability. In addition, the Bank received confirmation of the shareholder's support for the Bank in case of need.

Information on transactions with related parties, balances on transactions with related parties for 2023, income and expenses on transactions with related parties for 2023, the total amount of loans granted to and repaid by related parties during 2023, as well as other rights and obligations on transactions with related parties as at the end of the reporting period for 2023 is provided in the Bank's Annual Financial Statements for 2023.

7.17. PROTECTION OF THE FINANCIAL SERVICE CONSUMERS' RIGHTS BY THE BANK.

The Bank protects the rights of consumers of the Bank's services in accordance with the current legislation of Ukraine, including the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets" and the Law of Ukraine "On Consumer Lending".

The Client has the opportunity to apply to the Bank with comments, complaints and suggestions related to the Bank's activities, a statement or request to exercise their rights and legitimate interests and a complaint about their violation through the postal operator or submit it in person appeal.

Each message must be checked and answered.

The appeal may be submitted in writing or orally.

The written appeal must meet the requirements of the Law of Ukraine "On Citizens' Appeals" (hereinafter - the Law). The application must state:

- full name;
- place of residence of the applicant;
- the essence of the raised question;
- remarks, suggestions, statements or complaints, requests or demands.

The written application must be signed by the applicant (applicants) indicating the date.

A written request shall be sent by mail or transmitted to the Bank in person or through an authorized person whose powers are executed in accordance with the law.

Address for written appeals: 04116, Kyiv, Ukraine, st. Sholudenka 3, office 202

The client can send an application by e-mail to the address: info@avgd.ua or hotline@avgd.ua.

The electronic application, in addition to other requirements established by the Law, must also indicate the e-mail address to which the applicant may be sent a response, or information about other means of communication. The use of an electronic digital signature when sending an electronic application is not required. An application filed without complying with the requirements of the Law shall be returned to the applicant with the relevant explanations no later than ten days from the date of its receipt.

The form of the written request, which is sent by mail / is sent in electronic form, is posted on the official website of the Bank, as well as in a place accessible to the Bank's premises.

An appeal made without complying with the requirements specified in the paragraphs set forth above is returned to the applicant with the relevant explanations no later than ten days from the date of its receipt.

The appeal shall be accompanied by the applicant's decisions or copies of the decisions made on his / her appeal before, as well as other documents necessary for consideration of the appeal, which shall be returned to the applicant after its consideration.

The oral appeal is presented at a personal reception or by telephone through certain contacts of the Bank and is recorded (registered) by an authorized official of the Bank.

When making an oral appeal for further effective and timely consideration, the applicant must provide the following information:

- Full name;
- Contact details: registration / residence address of the applicant, postal address for correspondence, e-mail address, telephone number, etc.
- Oral description of the problem situation that caused the appeal.

The Client may apply orally (by phone) using any of the following contacts posted on the official website of the Bank (www.avgd.ua) or by phone: +380 (44) 222 01 01, mode of operation: Mon-Fri, 9.00 - 18.00.

An appeal against the appealed decision may be filed with the Bank within one year from the date of its adoption, but not later than one month from the date of acquaintance of the person with the decision. Complaints filed in violation of this deadline will not be considered. The term missed for a good reason may be renewed by the Bank.

The Bank is obliged to objectively and timely consider applications (petitions) submitted to the Bank, verify the facts set forth in them, make decisions in accordance with applicable

law and ensure their implementation, notify the applicant of the consequences of consideration of applications (petitions).

An application received by the Bank that meets the requirements of the Law shall be considered by the responsible divisions of the Bank within a period not exceeding one month from the date of its receipt. The answer is sent to the client's mailing address, or another channel specified by the client (by phone, e-mail). If it is impossible to resolve the issues raised in the application within one month, the authorized person of the Bank shall set the necessary deadline for its consideration, which shall be notified to the person who submitted the application. In this case, the total term for resolving the issues raised in the appeal may not exceed forty-five days.

Complaints (notifications) are considered by the Compliance Manager of the Bank - Antonina Padalka.

According to the Instruction on the organization of consideration of citizens' appeals, personal reception and access to public information in the National Bank of Ukraine, approved by the NBU Decision of May 14, 2020 №332-р/Ш the client has the right to appeal to the National Bank to resolve issues raised in the appeal including cases where the bank did not provide a response to the appeal within the period prescribed by the legislation of Ukraine for consideration of appeals or the received response did not satisfy the client.

Link to the section "Appeals of citizens" of the official Internet representation of the National Bank: <https://bank.gov.ua/ua/consumer-protection/citizens-appeals>

You can get acquainted in detail with the procedure for applying to the National Bank of Ukraine at the link: <https://bank.gov.ua/ua/consumer-protection>

Filing an appeal to the Bank or the National Bank does not deprive the client of the right to go to court in accordance with the legislation of Ukraine to protect their rights and interests.

Officials of the Bank shall be liable for refusal to accept and consider the appeal, violation of the term of consideration of the appeal, other violations of the client's right to appeal in accordance with the legislation of Ukraine.

During 2023, the Bank did not receive any complaints regarding the provision of financial services.

During 2023, there were no lawsuits against the Bank for the provision of financial services.

8. SUSTAINABILITY REPORT.

During 2023, the Bank did not have an environmental and social responsibility policy, which the Bank plans to develop, implement and enforce in the next reporting periods, as the world has faced a combination of difficult circumstances in recent years, the likes of which have never been seen before. The uncertain recovery from COVID-19 and the climate crisis was compounded by the Russian invasion of Ukraine in 2022, which had a global impact on the food, financial and energy systems. In such circumstances, the security goals are the highest priority, but the rest of the Global Sustainable Development Goals require attention. In 2024, the Bank will align its strategy and operations with the universal principles of human rights, labour, environment and anti-corruption, and take measures to achieve social goals in order to join the global process of responsible companies in the field of sustainable development.

Additionally, the Bank:

- supports the Global Sustainable Development Goals adopted by the United Nations <https://unglobalcompact.org/what-is-gc/mission/principles>, which are aligned with the biocapacity of the planet and are necessary to achieve human development;

- is interested in ways for the Bank to generate profits for its growth in the interests of all the Bank's stakeholders by eliminating unsustainable impacts and increasing positive impacts along the entire value chain;
- to ensure that the Bank's goals and actions taken to reduce its carbon footprint are consistent with the 2015 Paris Agreement, plans to introduce a science-based targeting approach and implement the so-called "SDG Compass" as an effective method for target setting and implementation across the value chain, which is a universal consensus on goals set globally on environmental, social and economic issues;
- plans to implement a dedicated governance process to ensure that the sustainable business model is effective and embedded in every part of the Bank. This may be either a separate position of Chief Sustainability Officer (CSO) or a group of specialists within the Bank;
- in recent years, the Bank has already been carrying out socially responsible activities (making charitable contributions to support Ukraine's freedom and independence, peace and security; ensuring free transactions for the purchase of military bonds by private investors; providing decent and safe working conditions; valuing and protecting the rights and freedoms of employees, consumers of the Bank's services, citizens, investors and other stakeholders, respecting their interests and society as a whole);
- agrees with the principle of carbon neutrality, makes responsible investments, always takes into account environmental protection issues when making decisions on project financing, primarily supports projects using renewable energy sources and aimed at creating energy from such sources, is guided in its activities by the best business standards aimed at reducing the impact of its activities on the environment, makes maximum use of digital document flow, constantly improves technologies, uses resources efficiently and
- Introduces banking products with free and equal access for potential customers.

9. INFORMATION ON THE BANK'S RELATIONS WITH FOREIGN COUNTRIES IN THE RISK ZONE.

The Bank's ownership structure does not include individuals with citizenship of a foreign country of the risk zone.

The Bank's ownership structure does not include individuals whose permanent place of residence is in foreign countries of the risk zone.

The issuer's ownership structure does not include legal entities registered in foreign countries of the risk zone.

The Bank's governing bodies do not include individuals holding citizenship of a foreign country of the risk zone.

The Bank has no other business relations with counterparties / customers of the risk zone state or counterparties / customers controlled by the risk zone state than those in respect of which appropriate measures were taken and accounts / transactions were blocked in accordance with the requirements of the current legislation of Ukraine, in particular, Resolution of the NBU Board No. 18 dated 24.02.2022. All information was provided to the NSSMC pursuant to the decision of the NSSMC No. 181 dated 21.02.2023.

The Bank does not have any subsidiaries/enterprises, branches, representative offices and/or other separate structural units in the territory of the risk zone country.

The Bank is not a founder, participant, shareholder of legal entities together with individuals who have citizenship of a foreign risk zone state or whose permanent place of residence is

in foreign risk zone states or with legal entities whose place of registration is in foreign risk zone states.

The Bank has no corporate rights in a legal entity registered in a foreign country of the risk zone.

The Bank does not hold securities of a legal entity registered in a foreign country of the risk zone.

10. CONCLUSION.

During the reporting year 2023, the Bank operated in accordance with the requirements of the Bank's Corporate Governance Code, current legislation of Ukraine, internal documents of the Bank, conducted profitable activities, followed the strategy set by the Bank's shareholders.

11. ADDITIONAL INFORMATION.

Other information on corporate governance issues that complement this report and are its integral part is contained in the following reports available on the Bank's website (<https://avgd.ua/>):

- Report of the Management Board of BANK AVANGARD JSC on the results of the Bank's financial and economic activities for 2023 (including the report on the evaluation of the Management Board's activities);
- Report of the Supervisory Board of BANK AVANGARD JSC for 2023 (including a report on the evaluation of the activities of the Supervisory Board and its members);
- Report on remuneration of the members of the Supervisory Board of BANK AVANGARD JSC for 2023;
- Report on remuneration of the members of the Management Board of BANK AVANGARD JSC for 2023.

Chairperson of the Management Board

Svitlana Korchynska

FREE TRANSLATION FROM THE ORIGINAL IN UKRAINIAN

ANNUAL FINANCIAL STATEMENTS

For 2023

**Statement of Financial Position as at
December 31, 2023***(in UAH thousand)*

	Note	2023	2022
Assets			
Cash and cash equivalents	6	563 685	9 044 955
Loans and due from customers	7	63 288	39 137
Investments in securities	8	655 212	297 119
Derivative financial assets	9	17	-
Deferred tax assets	26	606	4 252
Fixed and intangible assets	10	9 243	5 490
Right-of-use assets	10	69	-
Other financial assets	11	49	-
Other assets	12	11 324	16 665
Total assets		1 303 493	9 407 618
Liabilities			
Due to customers	13	871 952	9 099 112
Debt securities issued by the bank	14	7 314	7 170
Other raised funds	15	-	39 050
Derivative financial liabilities	16	1 137	1 190
Current income tax liabilities		61 584	2 175
Deferred tax liabilities	26	-	258
Other financial liabilities	18	1	1
Other liabilities	19	17 023	15 897
Provisions for liabilities	17	844	109
Total liabilities		959 855	9 164 962
Equity			
Share capital	20	200 080	200 080
Unpaid share capital	20	31 720	-
Retained earnings		103 115	32 949
Reserves and other funds		11 825	11 647
Revaluation reserves	21	(3 102)	(2 020)
Total equity		343 638	242 656
Total liabilities		1 303 493	9 407 618

Authorized for issue and signed on February 26, 2024.

Chairperson of the Board _____ /Svitlana Korchynska /

Chief Accountant _____ /Natalia Derkachenko/

Statement of profit or loss and other comprehensive income for 2023

(in UAH thousand)

	Note	2023	2022
Interest income	23	340 860	800 014
Interest expenses	23	(45 609)	(139 432)
Net interest income/(Net interest expense)		295 251	660 582
Commission income	24	8 292	6 321
Commission expenses	24	(1 249)	(1 298)
Net profit / (loss) from transactions with financial instruments, that are recognized at fair value through profit or loss		1 302	(4 686)
Net profit / (loss) from transactions with debt financial instruments that are carried at fair value through other comprehensive income		15 686	(10 210)
Net profit / (loss) from foreign currency transactions		(226)	5 195
Net profit / (loss) from foreign currency revaluation		978	66 352
Net profit / (loss) from impairment of financial assets		70 679	(59 329)
Net loss / (profit) from increase / (decrease) in provisions for liabilities	17	(735)	(22)
Other operating income		2	148
Salaries and wages	25	(48 153)	(40 766)
Depreciation and amortization	25	(2 810)	(1 356)
Other administrative and operating expenses	25	(124 149)	(616 595)
Profit/(Loss) before tax		214 868	4 336
Income tax expenses	26	(112 805)	(781)
Net profit for the year		102 063	3 555
OTHER COMPREHENSIVE INCOME:			
OCI items to be reclassified to profit or loss			
net change in fair value		(1 672)	(789)
Income tax related to other comprehensive income	26	590	142
Other comprehensive income after tax		(1 082)	(647)
Total comprehensive income for the year		100 981	2 908
Net profit/(loss) per an ordinary share	27		
base		836,58	29,15
diluted		836,58	29,15

Authorized for issue and signed on February 26, 2024.

Chairperson of the Board _____ /Svitlana Korchynska /

Chief Accountant _____ /Natalia Derkachenko/

Statement of cash flows
for 2023
(direct method)

(in UAH thousand)

	2023	2022
Cash flows from operating activities		
Interest received	281 511	849 668
Interest paid	(49 385)	(136 723)
Commissions received	8 323	7 536
Commissions paid	(1 249)	(1 409)
The result of transactions with financial derivatives	16 919	(17 383)
The result of foreign exchange transactions	(226)	5 195
Other operating income	2	148
Staff costs paid	(47 569)	(36 936)
Administrative and other operating expenses paid	(117 302)	(625 280)
Income tax paid	(49 418)-	-
Cash received / paid from operating activities before changes in operating assets and liabilities	41 606	44 816
<i>Changes in operating assets and liabilities</i>		
Net (increase)/decrease in loans and due from banks	-	134 092
Net (increase)/decrease in loans and due from customers	(16 274)	14 747
Net (increase)/decrease in other financial assets	-	629
Net (increase)/decrease in other assets	-	2
Net increase/(decrease) in due to banks	-	(1 190 000)
Net increase/(decrease) in due to customers	(8 223 232)	8 292 820
Net increase/(decrease) in debt securities issued by the bank	-	(19 000)
Net increase / (decrease) in other financial liabilities	23	(16 783)
Net cash flows from/(used in) operating activities	(8 197 877)	7 261 323
Purchase of securities at FVOCI	(14 534 948)	(5 320 210)
Proceeds on disposal of securities at FVOCI	14 226 021	6 814 221
Purchase of securities at amortized cost	-	-
Proceeds on redemption of securities at amortized cost	-	45 250
Acquisition of fixed assets	(337)	(3 193)
Acquisition of intangible assets	(5 025)	(727)
Net cash flows from/(used in) investing activities	(314 289)	1 535 341

JSC «BANK AVANGARD» Financial statements for the year 2023

Repayment of other borrowed funds	(38 951)	-
Net cash received / (used) from financing activities	(38 951)	-
Effect of changes in official foreign exchange rate of the National Bank of Ukraine on cash and cash equivalents	17 542	41 840
Net increase /(decrease) in cash and cash equivalent	(8 533 575)	8 838 504
Cash and cash equivalents, at the beginning of the year	9 145 488	306 984
Cash and cash equivalents, at the end of the year	611 913	9 145 488

Authorized for issue and signed on February 26, 2024.

Chairperson of the Board _____ /Svitlana Korchynska /

Chief Accountant _____ /Natalia Derkachenko/

Statement of Changed in Equity**for 2023***(in UAH thousand)*

	Share capital	Reserve fund	Revaluation reserve	Retained earnings	Total
Balance as at December 31, 2021	200 080	11 125	(1 373)	29 916	239 748
Distribution of previous year's profit	-	522	-	(522)	-
Total comprehensive income	-	-	(647)	3 555	2 908
Balance as at December 31, 2022	200 080	11 647	(2 020)	32 949	242 656
Distribution of previous year's profit	-	178	-	(178)	-
Unpaid share capital	31 720	-	-	(31 720)	-
Total comprehensive income	-	-	(1 082)	102 063	100 981
Balance as at December 31, 2023	231 800	11 825	(3 102)	103 115	343 638

Authorized for issue and signed on February 26, 2024.

Chairperson of the Board _____ /Svitlana Korchynska /

Chief Accountant _____ /Natalia Derkachenko/

Note 1. General information about the bank's activities

The financial statements have been prepared in accordance with International Financial Reporting Standards based on operating results of JOINT-STOCK COMPANY "BANK AVANGARD". The reporting year is 2023.

JOINT-STOCK COMPANY "BANK AVANGARD" (hereinafter "the Bank") was registered in the State Register of Banks of Ukraine on 5 July 2013 under the registration No.346. The Bank is a resident of Ukraine, it is located at: 04116, Kyiv, 3 Sholudenko Street.

The Bank is a member of the Individual Deposit Guarantee Fund, a self-regulatory organization of professional participants of the securities market: the Association "Ukrainian Stock Traders", UkrSWIFT.

The Bank has correspondent banking relationships with the largest banks of Ukraine and settles accounts through leading international banks in all major currencies of the world by means of S.W.I.F.T. international payments. Since December 2013, the Bank has been cooperating with LLC "UKRAINIAN CREDIT HISTORY BUREAU" regarding data transfer on borrowers' credit histories.

In 2014 WESTAL HOLDINGS LTD. (location: Evagora Papachristoforou, 18, PETOUSSIS BUILDING, office 101B, 3030, Limassol, Republic of Cyprus) became the Shareholder of the Bank with a substantial holding in it. As at the reporting date, WESTAL HOLDINGS LTD. Directly holds 100,00% of the Bank's share capital.

The indirect owners of substantial interest in the Bank are:

- ICU HOLDINGS LIMITED (location: Trident Chambers, PO 146, Road Town, Tortola, British Virgin Islands), which indirectly owns 100% of shares in the Bank through 100% stockholding in WESTAL HOLDINGS LTD; and
- NAREMIUS HOLDINGS LTD (location: Trident Chambers, PO 146, Road Town, Tortola, British Virgin Islands) indirectly owing 50% of shares in the Bank through 50% participation in the legal entity ICU HOLDINGS LIMITED, which indirectly owns 100% of shares in the Bank through 100% stockholding in WESTAL HOLDINGS LTD; and
- FILTESA HOLDINGS LTD (location: Trident Chambers, PO 146, Road Town, Tortola, British Virgin Islands) indirectly owing 50% of shares in the Bank through 50% participation in the legal entity ICU HOLDINGS LIMITED, which indirectly owns 100% of shares in the Bank through 100% stockholding in WESTAL HOLDINGS LTD

A Bank of persons linked by common economic interests, namely:

- individual Kostyantyn Stetsenko indirectly owing 50% of shares in the Bank through 100% stockholding of NAREMIUS HOLDINGS LTD, through a legal entity ICU HOLDINGS LIMITED, which indirectly owns 100% of shares in the Bank through 100% stockholding in WESTAL HOLDINGS LTD; and
- individual Makar Paseniuk indirectly owing 50% of shares in the Bank through 100% stockholding of FILTESA HOLDINGS LTD, through a legal entity ICU HOLDINGS LIMITED, which indirectly owns 100% of shares in the Bank through 100% stockholding in WESTAL HOLDINGS LTD.

The Management of the Bank does not hold any shares of the Bank.

Note 1. General information on the bank's activities (continued)

Independent rating agency "Credit-Rating" on 20.02.2024 confirmed the long-term credit rating of JSC AVANGARD BANK at the highest level uaAAA. The maximum rating was also confirmed for the bank's issues of interest-bearing registered unsecured bonds. The outlook of all ratings is "stable". The rating report can be found at the link: <https://avgd.ua/wp-content/uploads/AVNG-001-022-short.pdf>

The Bank operates as a multipurpose bank, whose activities are aimed at a comprehensive customer servicing and providing of high-quality services by offering a wide range of banking services and products, focusing its core business on the exchange, monetary and stock markets, conducting operations both by own resources and at the customers' expense. According to the results of the auction of domestic government bonds, the bank is among top 5 largest government securities traders.

In 2023, the Bank confirmed the compliance of its procedures with the requirements of international standards for the Quality Management System ISO9001:2015 and the Information Security Management System ISO/IEC27001:2022, having undergone the appropriate recertification in accordance with the requirements of the latest version of the standard. The Bank implements a business continuity management system in accordance with the international standard ISO 22301. In 2024-2026, the Bank plans to conduct its activities in accordance with anti-corruption procedures in accordance with the international standard ISO 37001, which is gaining popularity in the world. In 2024-2026, the bank will comply with the requirements of international standards ISO 9001, 27001, 22301 and 37001, as in previous years.

The bank has no branches and separate structural divisions. The services are rendered to customers at the Head Office.

As of the end of the reporting period, the Bank's customer base is formed by legal entities-entities (140 clients), non-bank financial institutions (36 clients), individual clients (319 clients) and individual entrepreneurs (7 clients). The bank serves 1418 accounts and 505 clients.

The Bank was created according to a special concept of a treasury bank, focused on the use of extensive expertise in the field of its activities with maximum operational efficiency due to price competition and high technologies. The main directions of the Bank's activities are securities trading, active participation in the interbank loans market, "Forex" market transactions. The Bank aims to acquire the status of government bonds primary dealer from the Ministry of Finance of Ukraine.

The strategic development plan of JSC "BANK AVANGARD" has been revised and adjusted taking into account changes in the Ukrainian economy and the business environment in the banking market. The Bank plans to expand the range of clients interested in treasury bank services, to enhance cooperation with Ukrainian counterparties regarding settlement and blank limits.

In 2024, due to changes in the market situation, the Bank plans to hold the government bonds portfolio in the amount of ~600 million UAH. The Bank plans to raise funds counterparties under the best market conditions to invest in Domestic Government Bonds. The remaining assets will consist of due from other bank and short-term loans granted to reliable borrowers. At the same time, 85% of the Bank's assets are placed for up to 30 days, and at least 85% of the assets are highly liquid, as they consist of interbank loans, domestic government bonds and cash on correspondent accounts with the most reliable Ukrainian and foreign banks. At least 85% of the due to customers are funds of legal entities.

In order to attract customers and promote the Bank's services, the Bank plans to improve all sales channels, including improving the Bank's website, expanding the functionality of the

Bank's mobile application, information work (analytical reports, reviews, legal opinions and recommendations to customers, etc.), mechanisms for attracting new customers to the Bank's services and optimising operational procedures to meet the requirements of the time in terms of speed and simplicity of transactions and reliability of settlements.

Note 1. General information on the bank's activities (continued)

In the context of the economic downturn and reduction of customers' business, taking into account the requirements and opportunities of the Law of Ukraine "On Payment Services" and the implementation of the National Bank's SEP-4, the Bank improves the technological capabilities of its payment automation systems to develop cooperation with non-bank payment service providers and provide them with settlement bank services. Thus, the Bank is focused on developing its transactional business to increase its customer base and generate commission income.

An important area of work (as soon as possible) is also the opening of direct correspondent accounts with leading international banks, which will significantly increase commission income.

In the coming years, the Bank plans to expand the range of clients interested in treasury bank services by intensifying cooperation with counterparties in Ukraine to set settlement and blanket limits for the Bank.

Types of banking activities

The Bank carries out banking operations in the money and foreign exchange markets in accordance with the banking licence obtained (the Bank was included in the State Register of Banks on 05.07.2013 under No. 346, Extract from the State Register of Banks dated 16.08.2021 No. ΔP5-000069).

As at the reporting date, the Bank has the License of the State Commission for Securities and Stock' Market for conducting professional activities in the securities market as a dealer (serial number AE № 286807), dated 22.01.2014 with no expiration date, which, according to the Resolution of The National Commission on Securities and Stock Market dated 23.06.2021 № 420 reissued for conducting professional activities in the capital market such as trading the financial instruments, which implies dealer activities.

The Bank's activities are based on the principles of reliability, transparency, well-balanced financial performance, compliance with requirements and best practices of banking activities in the following areas:

Treasury operations: operations in the monetary market, transactions in the foreign exchange market, securities transactions, relationships with professional financial market participants - banks, insurance companies, financial intermediaries of capital markets. Deposit attracting transactions from the Bank's customers are considered as transactions in the monetary market, since they represent the main source of the Bank's funding. In order to provide such funding the following measures have been organized: customer servicing, document management associated with all types of transactions and operations, payment and message processing in the "Client-Bank" system, opening and maintaining of current accounts of customers and correspondent banks, including transfer of funds using payment instruments and crediting of funds to accounts; management of customers' (both resident and non-resident) accounts in foreign currencies and non-resident customers' accounts in the currency of Ukraine; management of correspondent accounts of banks (resident) in foreign currencies; opening of correspondent accounts in the authorized banks of Ukraine in foreign currencies and transactions with them.

Note 1. General information on the bank's activities (continued)

During 2023, the National Bank of Ukraine has applied to the Bank no restrictions to limit activities performed by the Bank according to permits and licenses granted; there has been also no restrictions regarding the ownership of assets.

No decisions were made during the reporting year by the Bank's Management on the merger, consolidation, disintegration, separation or transformation of the Bank or on the termination of certain activities of the Bank.

There were no bankruptcy proceedings or arbitrations on the Bank's resolution; no decisions were made on the Bank's termination or bankruptcy by the highest governing body of the Bank or the court.

Bank performance indicators in 2023

The Bank's assets as of 31.12.2023 amounted to UAH 1 303 493 thousand (as of the end of the day on 31.12.2022 – UAH 9 407 618 thousand).

The quality of assets of JSC "BANK AVANGARD" is good. Highly liquid assets remain the main component of the Bank's assets. Highly liquid assets are mostly represented by IGLBs and NBU certificates of deposit. Funds on NOSTRO accounts are placed in resident banks.

The Bank's liabilities as at 31.12.2023 amounted to UAH 959 855 thousand (31.12.2022 -UAH 9 164 962 thousand). The resource base is formed by customer funds, including short-term funds of legal entities and individuals. The portfolio of client funds as of 31.12.2023 amounted to UAH 871 553 thousand (31.12.2022 - UAH 9 098 712 thousand).

In 2021, JSC «BANK AVANGARD» issued and placed Series A bonds in the amount of 100 000 (one hundred thousand) bonds maturing on 08.04.2026 and Series B bonds in the amount of UAH 100 000 (one hundred thousand) bonds maturing on 07.04.2027. During 2021 the Bank repurchased Series A own debt bonds in the amount of 77 500 (seventy-seven thousand five hundred) maturing on 08.04.2026 and Series B bonds in the amount of 97 500 (ninety-seven thousand five hundred) maturing on 07.04.2027. In the I quarter of 2022, the Bank repurchased Series A own debt bonds in the amount of 18 000 (eighteen thousand) bonds maturing 08.04.2026.

As of 31.12.2023, the total volume of placed bonds amounted to UAH 7 million.

As at 31.12.2023, the Bank's equity amounted to UAH 343 638 thousand (31.12.2022: UAH 242 657 thousand). The main component of equity is the Bank's share capital.

As at 31.12.2023, the Bank's share capital amounted to UAH 200 080 thousand (31.12.2022: UAH 200 080 thousand).

As at 31.12.2023, the Bank's regulatory capital amounted to 340 337 thousand., including tier I capital in the amount of UAH 237 523 thousand, tier II capital in the amount of UAH 102 814 thousand.

During the reporting period, the Bank complied with the economic standards of the National Bank of Ukraine, which as at 31.12.2023 had the following meanings:

Note 1. General information on the bank's activities (continued)

	Normative value	As at December 31, 2023	As at December 31, 2022
Regulatory capital ratio (N1)	UAH 200 000 thousand	UAH 340 337 thousand.	UAH 241 683 thousand.
Regulatory capital adequacy ratio (N2)	Not less than 10%	80,50%	52,48%
LCRBB	100%	521,2656%	109,7927%
LCRIB	100%	607,8046%	594,6036%

In order to monitor banks' liquidity, the National Bank has introduced the following liquidity ratios: liquidity coverage ratio (LCR), for all currencies (LCRBB) and for foreign currency (LCRIB).

Liquidity Coverage Ratio (LCR) is a liquidity ratio that sets the minimum level of liquidity required to cover a net expected cash outflow for 30 calendar days, taking into account the stress-scenario (hereinafter referred to as net expected cash outflow).

The Bank calculates its Liquidity Coverage Ratio (LCR) daily as the ratio of high-quality liquid assets to the expected net cash outflow.

According to the results of 2023, the Banks activity is profitable and the net profit is UAH 102 063 thousand.

Bank Management

The supreme governing body of the Bank is the General meeting of the shareholders. The Supervisory board is a collegial body of the Bank that ensures control over the activity of Management of the Bank, protection of rights of investors, other creditors and shareholders of the Bank according to the charter of the Bank, terms on Supervisory board of the Bank and the current law of Ukraine. The Supervisory board doesn't take part in the current management of the Bank.

According to the current legislation and the Charter the exclusive competence of the Supervisory Board includes:

- 1) approval of the Regulations on the Bank's Management Board, regulations on the Internal Audit Service, the Risk Management Service, the Compliance Service, the Corporate Secretary, permanent and temporary committees of the Supervisory Board, other internal regulations regulating the activities of the Bank's structural divisions, and other internal documents, the approval of which, in accordance with the requirements of the current legislation of Ukraine, is within the competence of the Supervisory Board; approving the provisions governing the Bank's activities, except for those that fall under the exclusive competence of the General Assembly and those that are submitted to the Bank's Management Board for approval by the decision of the Supervisory Board;
- 2) convening of the General Meeting, preparation and approval of the draft agenda and the agenda of the General Meeting, making a decision on the date of its holding and the inclusion of proposals in the draft agenda, except in the case of shareholders convening an extraordinary General Meeting;
- 3) consideration of the report of the Board and approval of measures based on the results of its consideration, decision-making based on the consequences of consideration of the report of the Board;

- 4) appointment and termination of powers of the Chairman and members of the Management Board, as well as decision-making on the quantitative composition of the Management Board;
- 5) appointment and dismissal (termination of powers) of the head of the Bank's Internal Audit Service (internal auditor), Chief Risk Manager, Chief Compliance Manager;
- 6) approving the terms of employment contracts (contracts) concluded with the members of the Management Board, the manager and employees of the Bank's Internal Audit Service, the Chief Risk Manager, the Chief Compliance Manager, establishing the amount of their remuneration, including incentive and compensation payments; determination of the person who will sign contracts (agreements) on behalf of the Bank with the head and members of the Bank's Management Board;
- 7) making a decision to remove the Chairman of the Management Board or a member of the Management Board from exercising his powers, to elect a person who will temporarily exercise the powers of the Chairman of the Management Board;
- 8) determination of an auditing firm for conducting an external audit of the Bank, including for conducting an annual audit of financial statements, and approving the terms of the contract concluded with the auditing firm, establishing the amount of payment for services; and the election of a person authorized to sign such an agreement with the subject of audit activity;
- 9) consideration of the conclusion of the Bank's external audit and preparation (provision) of recommendations to the General Assembly for decision-making regarding the conclusion of the external audit;
- 10) making a decision to give consent to the Bank's execution of significant transactions or transactions with an interest in cases established by the legislation of Ukraine.
- 11) election of the Corporate Secretary and approval of the Regulations on the Corporate Secretary;
- 12) creation of temporary and permanent committees of the Supervisory Board, determination of their personnel, powers and other issues of functioning, review of reports (conclusions) of temporary and permanent committees of the Supervisory Board;
- 13) approval and control over the implementation of the Bank's strategy, business plan, plans for the restoration of the Bank's activities, financing of the Bank in crisis situations, ensuring the continuous operation of the Bank;
- 14) ensuring the operation and control over the effectiveness of the Bank's comprehensive and adequate internal control system, including the risk management system, internal audit;
- 15) determination of the Bank's credit policy;
- 16) control over the elimination of deficiencies identified by the National Bank of Ukraine and other state power and management bodies that, within the scope of their competence, supervise the activities of the Bank, the Internal Audit Service and the audit firm, based on the results of the external audit;
- 17) determination of remuneration policy in the Bank in accordance with the requirements established by the National Bank of Ukraine, as well as control over its implementation;
- 18) approval of the regulation on the remuneration of the members of the Management Board; approval of the report on the remuneration of the members of the Management Board;
- 19) carrying out an annual assessment of the performance of the Bank's Supervisory Board in general and each member of the Bank's Supervisory Board in particular, committees of the Bank's Supervisory Board, assessment of the compliance of the Bank's Supervisory Board's collective suitability to the Bank's size, complexity, volumes, types, nature of operations carried out by the Bank, organizational structure and risk profile the Bank, taking into account the peculiarities of the Bank's activities and/or the activities of the banking group, which the

Note 1. General information on the bank's activities (continued)

Bank is a part of, as well as taking measures to improve the mechanisms of the Bank's board of operations based on the results of such an assessment;

20) carrying out an annual assessment of the effectiveness of the Bank's Management Board in general and each member of the Bank's Management Board, in particular, the Risk Management Service, the Compliance Service, the Bank's Internal Audit Service, assessing the compliance of members of the Bank's Management Board, the Chief Risk Manager, the Chief Compliance Manager, the Head of the Internal Audit Service with qualifications requirements, assessment of compliance of the collective suitability of the Bank's Management Board with the Bank's size, complexity, volumes, types, nature of operations carried out by the Bank, organizational structure and risk profile of the Bank, taking into account the specifics of the Bank's activities and/or activities of the banking group, which includes the Bank, as well as taking measures on improving the mechanisms of the Bank's Management Board and the Risk Management Service, the Compliance Service, and the Bank's Internal Audit Service based on the results of such an assessment;

21) control over the preparation of the Report on the remuneration of members of the Supervisory Board;

22) exercise of other powers attributed to the competence of the Supervisory Board by the Law of Ukraine "On Joint Stock Companies", current legislation of Ukraine or the Bank's Charter.

The executive body of the Bank is the Management Board, which manages the current activities of the Bank, resolves issues in its competence, determined by the Charter of the Bank, Regulation on the Management Board of the Bank and is responsible for the effectiveness of activity of the Bank according to the current legislation, Charter of the Bank, the Regulation on the Management Board of the Bank and is responsible for the effectiveness of the Bank's work in accordance with the current legislation and the Bank's Charter.

The executive body of the Bank is the Management Board, which manages the current activities of the Bank, except for those, in exclusive competence of General Meeting of shareholders and Supervisory Board. General Meeting and Supervisory Board can make a decision regarding transfer of authority to the competence of the Management Board except for authority, referred to by applicable law of Ukraine and Bank's Charter to exclusive competence of each of the bodies of management of the Bank.

The Management board is accountable to Supervisory Board of the Bank. The Management Board decides on the managing of the Bank's structural divisions, monitors the Bank's compliance with the current legislation of Ukraine; organizes deposit operations for the Bank's cash assets and valuables, accounting and reporting transactions, internal controls and other issues regarding the Bank's activities: reviews and approves the internal documents at the Bank within its competence, decides on the establishment, management and liquidation of the Bank's structural divisions other than those which fall within the exclusive competence of the Supervisory Board, and exercises other powers stipulated by the current legislation of Ukraine.

The Bank's organizational structure is based on the main directions, each of them being dependent to one of the members of the Management Board.

Note 1. General information on the bank's activities (continued)

The Bank improves its corporate governance standards taking into account the practices and vision of leading international companies, as well as creating the necessary conditions for timely exchange of information and effective interaction between the Supervisory Board and the executive body.

The number of employees of the Bank at the end of 2023 is 30 people.

The Bank does not plan to increase its staff or make any significant personnel changes. In 2024, the Bank plans to increase its staff by 6% to support business development.

Risk management system

The Bank's risk management system is aimed at ensuring the implementation of business goals defined under the Bank's development strategy and enhancing its value, optimizing the potential opportunities and risks ratio, capital stock and growth rates of the Bank.

The main instrument in implementation of these objectives is a comprehensive risk management system established at the Bank that provides action coordination across all the departments within a single strategy regarding risk management, approved by the Supervisory Board of the Bank. The formation of the integrated system is aimed at a maximum concentration of the Bank's risk management functions, ongoing analysis of the situation and environment where risks arise and executive decision-making regarding the influence over these risks and/or the level of the Bank's exposure to them.

The Bank's risk management system is based on the principles defined by the regulatory authorities and recommendations of the Basel Committee.

The distribution of functions and powers in the risk management covers all organizational levels and divisions of the Bank. The basic structure of the Bank's risk management stipulates for the involvement of the Supervisory Board, the Management Board, special-purpose committees, the Bank's risk management services and structural divisions in the risk management process.

The general supervision over the implementation of the Bank's risk management is carried out by the Bank's Supervisory Board; the implementation of the risk management system is carried out by the Management Board.

The Asset and Liability Management Committee determines the optimal balance sheet structure, plans the financial performance indices and monitors their implementation, considers the cost of funding sources, controls the liquidity risk, interest rate and foreign currency risks.

The Credit Committee manages credit and investment activities and monitors the credit risks associated with individual customers and credit-investment portfolio as a whole.

The Tariff Committee regulates commission income, analyses the current tariff rate competitiveness.

The Risk Management System performs a quantitative and and qualitative assessment of the risks to which the Bank is exposed or which may subsequently arise in its activities, monitors the status and size of the risks, namely:

- Credit risk;
- Liquidity risk;
- Interest rate risk;
- Market risk;

Note 1. General information on the bank's activities (continued)

- Foreign currency risk;
- Operational risks;
- Compliance risk;
- Reputation risk;
- Strategic risk.

The Internal Audit Service evaluates the sufficiency of the risk management systems to the Bank's requirements.

The Bank's structural divisions perform the risk operational management associated with the activities according to the established risk tolerance levels and limits, and are responsible for the risk acceptance results. The Bank improves the risk management system on a regular basis and provides timely updating of the interbank statutory framework in case of changes in legal, regulatory or statutory requirements, the Bank's organizational structure and risk tolerance.

Significant accounting judgments, assessments and assumptions

Preparation of financial statements in accordance with IFRS requires management to form certain judgments, assessments, and assumptions, which affect the amounts of income, expenses, assets and liabilities in the statements, as well as those that affect the disclosure of information about these articles and on contingent liabilities. The uncertainty of these assumptions and estimated values can lead to results that may be significantly adjusted in the future relative to the book value of assets and liabilities, for which similar assumptions and estimates were made. In the process of applying the Bank's accounting policy, the management made the following judgments and assumptions about the future and other major sources of uncertainty of the estimate at the reporting date, which carry a significant risk that a significant adjustment in the book value of assets and liabilities will be required in the next financial year.

Existing circumstances and assumptions about future developments may change as a result of events not controlled by the Bank, which are reflected which are reflected in assumptions in case of their occurrence. Positions that have the most significant impact on the amounts reflected in the consolidated financial statements and for which management has used significant judgments and/or assessments considered below, taking into account accepted judgments/assessments.

Note 2. Economic environment in which the Bank operates

On 24.02.2022, a full-scale invasion of the territory of Ukraine by the troops of the Russian Federation began. In connection with the military aggression of the Russian Federation against Ukraine, based on the proposal of the National Security and Defence Council of Ukraine, the President of Ukraine in accordance with the Decree of the President of Ukraine of February 24, 2022 № 64/2022 imposed martial law in Ukraine for 30 days. The same day was approved by the Verkhovna Rada of Ukraine.

The National Bank promptly made decisions and imposed temporary restrictions on the operation of the foreign exchange market of Ukraine, fixing exchange rates, restrictions on cash withdrawals and a moratorium on cross-border payments, etc. in connection with the declaration of martial law throughout Ukraine. Appropriate actions are necessary to ensure the reliable and stable functioning of the country's financial system and maximize the activities of the Armed Forces of Ukraine, as well as the smooth operation of critical infrastructure.

Note 2. Economic environment in which the Bank operates

At its extraordinary meeting on 24.02.2022, the National Securities and Stock Market Commission (NSSMC) decided to temporarily suspend operations with all securities, as well as to conduct operations in the depository accounting system and clearing accounting systems, and to temporarily suspend operations with assets of CII and NPF. On 08.08.2022, the NSSMC cancelled most of the restrictions imposed on 24.02.2022 in connection with Russia's armed attack on Ukraine and the introduction of martial law.

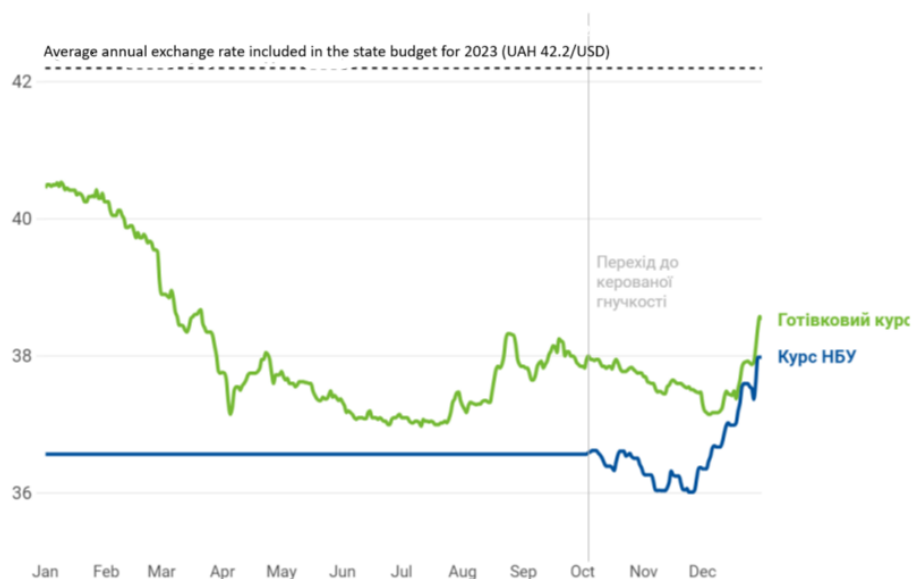
According to the NBU experts, the foreign exchange and stock markets are currently operating under significant restrictions that were introduced under martial law. Authorized institutions are effectively prohibited from trading in foreign exchange, except in certain cases. Most transactions on the interbank market involve the NBU, both buying and selling foreign currency.

Monetary and financial sectors

Hryvnia

Ukraine entered 2023 with an official exchange rate of 36.6 hryvnia to the dollar. The cash exchange rate was significantly higher: UAH 40.5 to the dollar as of 1 January. Expectations for the year varied: the government budgeted for an average annual exchange rate of 42.2 UAH/USD in 2023, while non-governmental experts agreed on a consensus forecast of an average annual exchange rate of 37.9 UAH/USD.

In the end, the NBU kept the exchange rate fixed at 36.6 for most of the year, and the gap with the cash rate gradually narrowed. On 3 October, the NBU switched to a managed flexibility regime, but the hryvnia was even slightly strengthening due to significant FX interventions. In December, the trend reversed and the dollar began to rise, and Ukraine entered the new year of 2024 with an exchange rate of 38 UAH/USD. However, the average annual official exchange rate was lower than both government and non-government forecasts, remaining at UAH 36.6 per dollar



Note 2. Economic environment in which the Bank operates (continued)

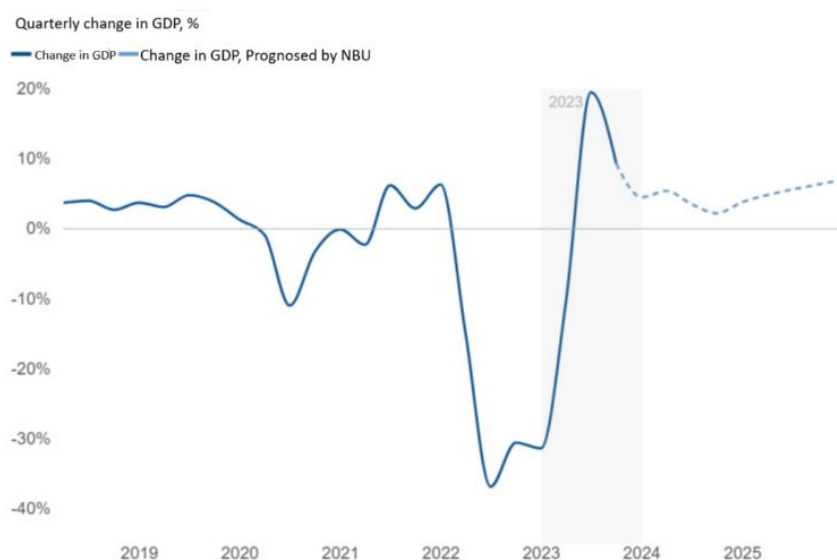
The impact of war on the banking sector is manifested through the following components:

- interruptions in the operation of bank branches and ATMs, significant damage or destruction of banking infrastructure in the areas of military operations;
- reduced liquidity due to outflows of customer funds, partially offset by support from the NBU through refinancing instruments;
- reduction in the loan portfolio due to the actual cessation of new lending by banks (except for lending by state-owned banks to sectors and enterprises that are critical under martial law);
- a sharp (at least 50%) decline in the operating income of banks (due to reduced demand for services from customers, the introduction of "credit holidays", restrictions on foreign exchange transactions, etc.), which may result in their operating losses in the medium term;
- the inability of some borrowers to service their loans, deterioration in payment discipline due to the suspension of operations of many businesses, loss of income sources by individuals (including refugees), and the forced relocation of millions of Ukrainian citizens;
- a decline in the capital of banks due to a shortfall in income, material losses and the loss of a part of the loan portfolio.

According to experts of the National Bank of Ukraine, the financial sector continues to operate smoothly, customer confidence in banks remains high, and they are increasingly lending to businesses and households. Despite the persistence of military risks, the financial sector is playing an increasingly important role in economic recovery.

GDP dynamics

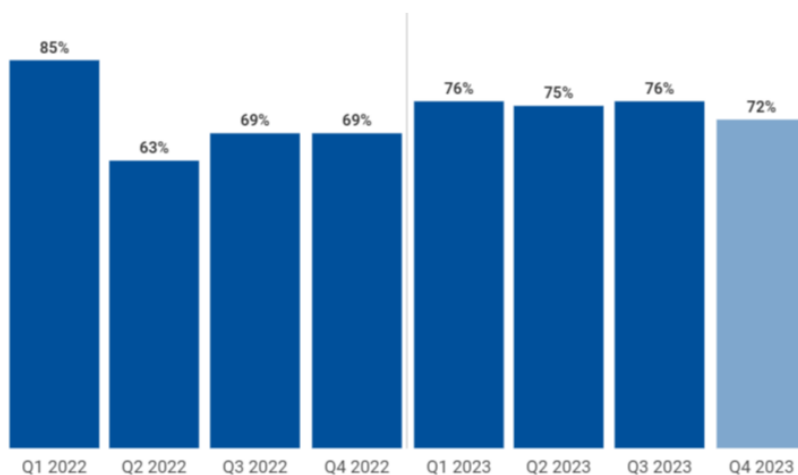
In 2023, Ukraine's real GDP is estimated to have grown by 5-5.5%. This is a recovery after a sharp 28.8% drop in 2022. Despite the recovery, GDP is still about a quarter lower than in 2021. In the first quarter of 2023, GDP was still falling, but grew for the remaining three quarters.



Note 2. Economic environment in which the Bank operates (continued)

GDP growth occurred against a low comparison base in 2022, meaning that the economic recovery had actually stopped. In each quarter of 2023, real GDP was lower than in the corresponding quarter of 2021.

Real GDP by according quarters of 2021, %



In 2023, Ukraine exported \$36 billion worth of goods and imported \$63.5 billion. Merchandise exports decreased for the second year in a row: in 2021, Ukraine's exports of goods reached \$68.2 billion, and in 2022 - \$44.2 billion. The key categories of Ukraine's merchandise exports are food (mostly grain) and metals, which are highly dependent on easy logistics.

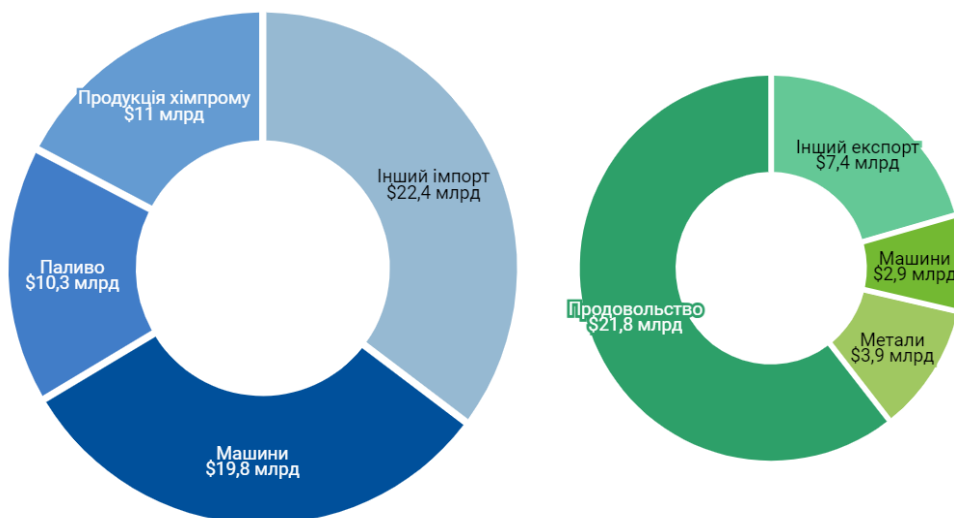
In 2023, Ukraine created its own Ukrainian Sea Corridor to the Black Sea ports of Odesa region. This has allowed for a gradual increase in not only grain exports, but also the resumption of maritime exports of other goods, as well as the resumption of maritime import.

Note 2. Economic environment in which the Bank operates (continued)

Найбільші категорії товарного експорту та імпорту України у 2023, млрд дол.

Імпорт (\$63,5 млрд)

Експорт (\$36 млрд)



The weather in 2023 was favourable for agriculture, and farmers were able to break yield records. Grain yields increased to 54.7 cwt/ha, beating the previous record of 53.6 cwt/ha in 2021. Yields of other crops were also good. This made it possible to harvest high yields despite the loss of a significant part of the territories that are either under occupation or dangerous for agriculture.

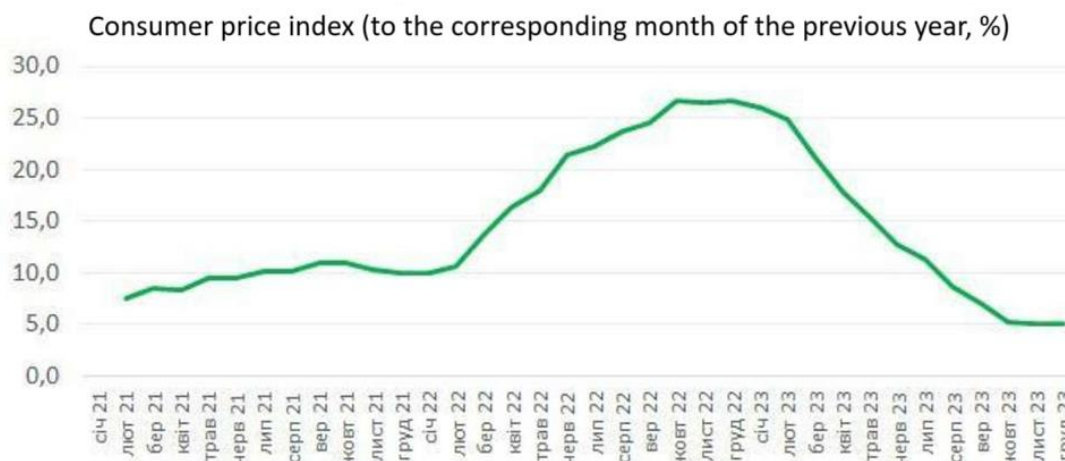
High harvests also bring certain challenges - it is important to maintain logistical capabilities for food exports. At the end of 2023, sea exports of grains and oilseeds through the Ukrainian Sea Corridor reached the peak indicators of the Grain Agreement.

Ukraine's metallurgical enterprises have been gradually, slowly, recovering. Currently, steel mills are operating at around 70% of their capacity. At the end of 2023, the rope around the neck of steelmakers was finally loosened, with the resumption of sea exports through the Ukrainian Sea Corridor. The corridor should continue to operate, and opportunities for ferrous metal exports should be expanded. This will make the steel industry feel much more confident, as before the war, 4/5 of the industry's output was exported, and it is almost impossible to replace such volumes with domestic consumption.

Inflation

Ukraine entered 2023 with record-high inflation, which was driven by the war and the printing of the hryvnia to cover military spending. However, inflation was brought under control during the year: regular inflows of foreign aid allowed the government to stop monetary financing (through hryvnia printing) of the budget, and good harvests helped to reduce food prices. In December 2023, inflation stood at 5.1%, almost returning to the pre-war inflation target of 5%.

Note 2. Economic environment in which the Bank operates (continued)

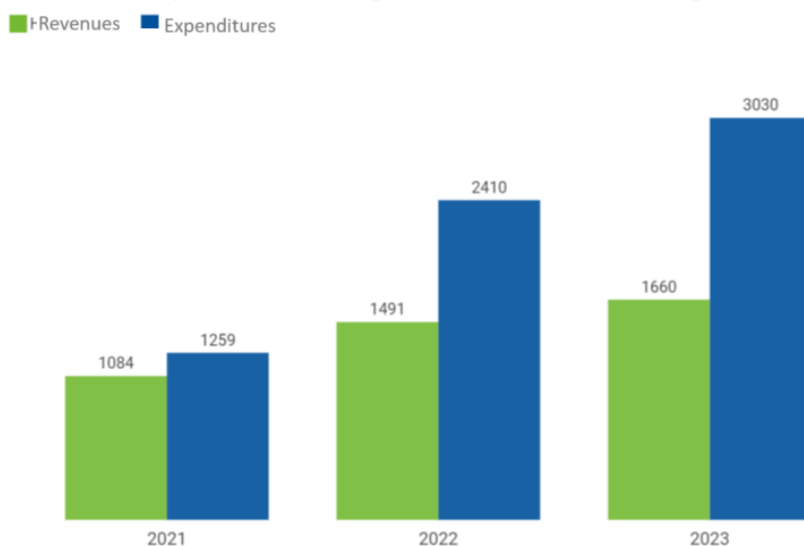


Budget

The Ukrainian budget in 2023 is still a budget of war. About half of the state budget is spent on defence; we estimate that defence spending will exceed 30% of GDP in 2023. For comparison, the NATO "norm" in peacetime is 2%.

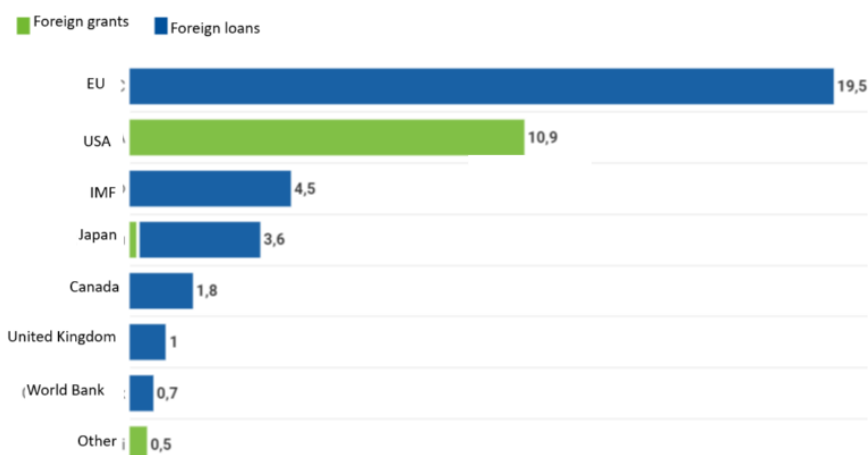
Ukraine's own tax and customs revenues were still not enough to cover all budget expenditures. The difference was covered by foreign financial assistance and the issuance of military bonds.

revenues and expenditures of the general fund of the state budget, UAH billion



In 2023, Ukraine continued to receive foreign financial assistance - more than in 2022 (\$42.5 billion in 2023 vs. \$31.1 billion in 2022), and more regularly and predictably. The assistance mostly came in the form of loans (63% of all financial assistance) rather than grants; however, these loans were very concessional and necessary for Ukraine, as they allowed it to finance important budgetary needs today.

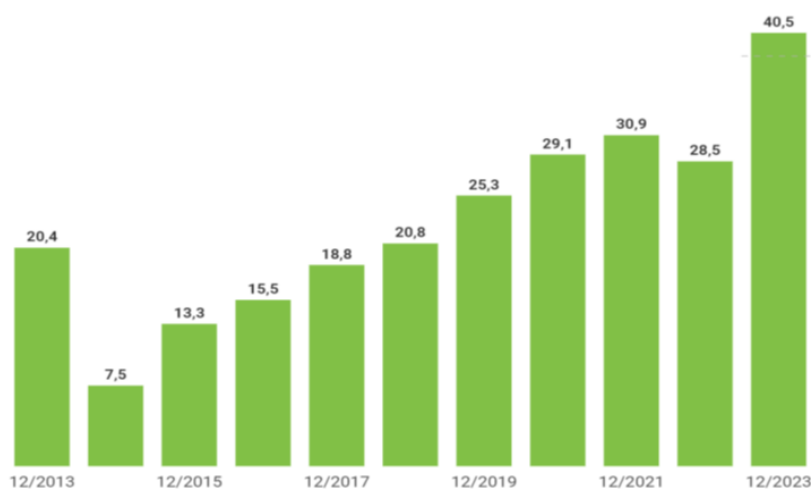
Note 2. Economic environment in which the Bank operates (continued)



In total, the state budget's additional financing needs for 2023 amounted to USD 59.9 billion, including USD 47.9 billion for the budget deficit and USD 11.9 billion for debt repayment. Foreign aid covered 71% of these needs; the rest was financed mainly through the issuance of domestic government bonds.

Thanks to foreign financial assistance, foreign exchange reserves reached historically record levels in 2023. At the end of the year, Ukraine's international reserves stood at \$40.5 billion. This is more than the historical record before the full-scale invasion, when reserves reached their previous peak of \$38.4 billion in April 2011. This situation during the war was only possible because of the unprecedented financial support provided to Ukraine. The high level of reserves is a kind of safety cushion in case of interruptions in the further flow of aid.

Gross international reserves at the end of December 2013-2023, USD billion



In 2023, the government raised UAH 566 billion through domestic government bonds, more than twice as much as in 2022. The fiscal gap also narrowed. In 2022, the government spent UAH 133 billion more to redeem previous issues of domestic government bonds than it managed to raise from new domestic debt; in 2023, it managed to refinance the repayment of the old debt and raise another UAH 196 billion on top of that. However, if we compare the proceeds from new domestic government bonds issues for the year with the cost of repaying the debt on domestic government bonds and budget expenditures on debt servicing, the difference was still negative (UAH 3 billion).

Note 2. Economic environment in which the Bank operates (continued)**Financial sector**

During 2023, the key policy rate decreased from 25% to 15%. The yield on one-year hryvnia military bonds decreased to 17.55%. Average interest rates on retail deposits (UIRDs) declined to the 13-14% range, but are above the inflation rate.



The volume of household deposits remained unchanged for hryvnia time deposits and decreased for demand deposits. On the other hand, time deposits in foreign currency showed growth.

Loans to residents increased slightly, but remain generally low. With war risks still present, lending is unlikely to improve significantly without government support or war risk insurance.

In 2022, due to a significant decrease in lending and lower demand for banking services in general, as well as the revaluation of its assets due to the hostilities and occupation, banking profits declined.

In contrast, 2023 was an extremely profitable year for banks due to monetary policy that provided for high rates on NBU certificates of deposit. To finance state defence spending, a temporary higher bank profit tax was introduced: 50% in 2023 and 25% in 2024-2025.

Migration and the labour market

According to conservative estimates, up to half of Ukraine's pre-war population, or at least 20 million people, are directly involved in active migration processes caused by Russian aggression.

Approximately 8 million Ukrainians have found safe haven in European countries, of which 5 million have been granted temporary protection in one of the host countries. Half of all Ukrainian refugees have settled in Poland and Germany. Ukrainians who are internally displaced abroad are mostly women and children under 18. Up to 6.5 million Ukrainians are internally displaced persons (IDPs).

Since the beginning of the full-scale invasion, the State Statistics Service has not published unemployment data. The Info Sapiens research agency makes its own estimates of unemployment. Throughout 2023, the trend of a steady decline in unemployment continued. At the same time, at the end of the year, unemployment was still one and a half to two times higher than in early 2022, before the full-scale invasion.

Note 2. Economic environment in which the Bank operates (continued)

Throughout 2023, 20-25 percent of Info Sapiens respondents consistently reported that they were saving on food, which roughly coincides with the World Bank's poverty estimate for Ukraine.

The number of vacancies in the labour market recovered steadily in 2023, but has not yet reached the level of 2021. On the other hand, the dynamics of job seekers were negative, which is also confirmed by the results of a business survey that states that a lack of labour is a significant obstacle to business activity.

In the first month of the full-scale war, mass layoffs and a slowdown in business activity saw many more new workers enter the labour market than employers could accommodate. Throughout 2022, the labour market dynamics levelled off, and in 2023, the ratio of new job seekers to new vacancies reached the level of 2021.

On the one hand, there are more vacancies in the market overall; on the other hand, there are fewer people willing to take up these positions. The market has stabilized after the initial shock of a full-scale war and is gradually adapting to the structural changes in the economy. At the same time, there are fewer and fewer available workers in Ukraine: a significant number of Ukrainians are abroad, and about a million men and women are defending the country in the ranks of the Defence Forces.

The peak of credit losses from the full-scale war has passed. This was confirmed by the NBU's resilience assessment. Adjustments to prudential provisions were generally insignificant. Today, about a third of the total amount of non-performing corporate loans are those that arose during the full-scale war. For a large part of the debtors, the reason for default was the loss of sales markets or a drop in domestic demand. Therefore, some of them have a chance to resume loan servicing when economic conditions improve. The average default rate is declining in both the corporate and retail segments. For household loans, it has come close to pre-crisis levels. However, an elevated level of credit risks remains for companies in a number of industries that are recovering slowly. Some agricultural producers are also facing significant financial difficulties this year due to low domestic prices for their products. However, they are maintaining a constructive dialogue with banks to resolve their liquidity problems. Overall, the realities of almost two years of war have confirmed that banks generally have a sufficient appetite for lending, are willing to take moderate credit risks, and, if they do, can effectively manage bad debts.

Banks incurred almost no provisioning costs this year. Losses from defaults were offset by the release of provisions on performing asset portfolios due to improved macroeconomic expectations. However, this situation is unique, so we should not expect a repeat of this scenario next year: the level of credit risk losses in all segments will return to normal in the future. However, credit losses will continue to be easily covered by banks' current operating profits.

A significant reduction in the NBU's key policy rate changed the yields on major Banks of interest-bearing assets. The share of income from certificates of deposit, which saw the most rapid decline in interest income, is declining. On the other hand, the average yield on domestic government bonds has slightly increased in recent months, as older issues are being replaced in banks' portfolios by new ones with higher coupons. Currently, the pricing conditions for domestic government bonds are attractive, as banks receive an appropriate premium for the maturity of their investments compared to the key policy rate. The weight of lending income in interest income is increasing: although business loan rates declined slightly, the portfolio of such loans grew. At the same time, banks cut deposit rates, primarily to legal entities. Interest margins for banks are likely to have passed their peak, but they will remain high and a reduction in them does not pose a significant risk to banks.

Note 2. Economic environment in which the Bank operates (continued)

The indefinite increase in the tax rate to 25% starting in 2024 will have a significant impact on banks' profitability. This factor will reduce the profitability of the banking business and the speed at which banks replenish capital. In November, in a survey on systemic risks, banks for the first time in a long time identified the quality of legislation and the tax system as one of the most important risks.

High bank profitability has led to an increase in capital adequacy ratios. Today, the capital stock is more than sufficient not only to cover the risks already taken into account in the regulations, but also to meet the new planned requirements. The most significant of these are full capital coverage of operational and market risks. Also, next year, a new regulatory capital structure will be introduced and new minimum capital adequacy requirements will be implemented.

This year's resilience assessment confirmed the banking sector's high safety margin. The assessment was based on a baseline macroeconomic scenario, which at the same time assumed a number of risks: primarily a reduction in interest margins and credit losses. Twenty large banks were assessed for resilience. Of these, only five were subject to higher capital adequacy ratios, primarily due to long-standing problems with portfolio quality and business models. Taking into account the results of the resilience assessment, the NBU will analyse the feasibility and possible timing of the capital conservation buffer and the systemic importance buffer early next year. After that, the restrictions on capital distribution and dividend payments by banks that have fully formed these buffers may be eased.

The non-banking financial sector is being transformed. New laws on insurance, credit unions, financial services and financial companies will come into force in early January. The insurance market has changed the most in recent years as a result of the gradual tightening of solvency and asset quality requirements. Insurers that were unable or unwilling to meet the new requirements left the market. At the same time, this has made the sector more resilient to challenges. The payments market is also developing dynamically, driven by the opportunities provided by the new legislation. So far, the volume of transactions of non-bank payment service providers has been insignificant, so there are no systemic risks in this segment.

In the coming years, as the current problems caused by the war are resolved, the NBU will focus on long-term priorities for further harmonisation of financial sector regulations with European legislation.

Note 3. Basis of preparation of financial statements

The Bank's annual financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB").

These financial statements have been prepared in accordance with the measurement principle at historical cost, with the exception of items carried at fair cost.

The financial statements are presented in UAH, and all amounts are rounded to thousands, except where otherwise indicated. The Bank's functional currency is UAH.

The Bank's accounting policy for the reporting period corresponds in all major aspects to the Bank's accounting policy for the previous period.

The Bank's accounting records and financial statements are based on the following principles:

- full coverage – all banking transactions are to be registered on accounts without any exceptions. The financial statements must contain all information about actual and potential effects of the Bank's operations that may affect the decisions made according to it;
- autonomy – assets and liabilities of the Bank as a business entity are accounted for separately from the assets and liabilities of other business entities (customers and counterparties of the Bank), as well as its owners;
- consistency – the Bank's permanent (year on year) application of accounting policies selected. Changes in the accounting method are possible only in cases stipulated by international standards and national regulations of accounting and require additional justification and disclosures in the financial statements.
- continuity – the Bank's assets are valued on the assumption that the Bank is a going concern and remains active in the boundless future. If the Bank plans to scale down its activities, such intention shall be recorded in the financial statements;
- accruals – income and expenses are reflected in accounting and financial statements at the time of their occurrence, regardless of the date of receipt or payment of funds;
- prevalence of substance over form – transactions are accounted for and disclosed in the reporting in accordance with their essence and economic content, and not only according to their legal form;
- –single monetary measurement – measurements and summaries of all the Bank's operations in its financial statements are carried out in a single monetary unit.

There are no plans regarding termination of the Bank's activities. These financial statements have been prepared on the assumption of the Bank's ability to continue as a going concern.

Note 4. Accounting policy**Note 4.1. Base of assessment preparation of financial statement**

Key assessment indicators. Financial assets and liabilities are stated at fair value, historical cost or amortized cost depending on their classification.

Fair value – is the amount on which an asset can be exchanged, or a liability settled during the implementation of an agreement on general conditions between knowledgeable unrelated- parties acting on a voluntary basis. Fair value is the current bid price for financial assets and financial liabilities for the bid listed on the active market. A financial instrument is considered so- that is quoted in an active market, if the quotes for this financial instrument are readily and regularly available on the stock exchange or other institution and those prices represent actual and regularly occurring market transactions on general terms.

To determine the fair value of certain financial instruments for which there is no information about market prices from external sources, the valuation techniques are used such as discounted cashflow, valuation models that are based on data about the latest agreement made between unrelated parties, or analysis of financial information on investment objects. The use of valuation techniques may require assumptions not supported by observable market data. The information in the financial statements is disclosed in cases when changing of any such assumptions by possible alternative may result in significantly different profit, income, total assets or total liabilities.

Historical cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the acquisition date, which includes transaction costs. Historical cost valuation is applied to equity instruments that do not have a quoted market prices – in an active market, and fair value of which cannot be reliably measured.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability and that could not have been avoided if the entity had not issued, acquired or sold the financial instrument. Transaction costs include commissions paid to agents, advisers, brokers and dealers, levies on regulatory authorities, stock exchanges, taxes and governmental duties, and other expenses. Transaction costs do not include discounts or premiums on debt financial instruments or administrative expenses.

In addition to assessment methods in recognition of assets, the Bank uses various methods to bring the value of financial instruments and assets to fair value through the accrual of income and expenses, including using the effective interest rate method, formation of special purpose, bank reserves, revaluation to fair value, depreciation of non-current assets, etc.

Amortised cost is the amount at which a financial asset or financial liability is measured at initial recognition, minus the amount of funds received or paid [principal, interest income (expense) or other payments associated with the initiation of the financial asset or financial liability], plus or minus the cumulative amortisation using the effective interest rate of any difference between the amount initially recognised and the maturity amount of the financial instrument, and for financial assets held to maturity, minus the amount of any difference between the amount initially recognised and the amount subsequently amortised.

The effective Interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or amortised cost of the financial liability. The Bank calculates the effective interest rate based on estimated future cash flows considering all contractual terms of the financial asset, excluding expected credit losses.

The accounting policies of the Bank in all significant respects consistent with the requirements of IFRS and the requirements of regulatory legal acts of the National Bank of Ukraine.

Note 4.2. Initial recognition of financial instruments

A financial asset or a financial liability is recognized when the Bank becomes a party to the agreement on this financial instrument. Assets are initially recognized by the Bank in case if bank controls them, bears the risk, expects to gain profit from their use and their cost can be adequately assessed. Liabilities are initially recognized by the bank when they are agreed on by a contract, set by law or potential (IFRS 37) liability, which has a high probability (usually,

Note 4. Summary of significant accounting policies (continued)

more than 50%) to cause the decrease in resources that provide profit. Bank recognizes financial assets and liabilities by standard procedures of purchase and sale with the date of the contract.

Upon initial recognition of financial instruments at fair value through profit or loss, the Bank measures them at fair value, net of transaction costs. The Bank records transaction costs on the acquisition of such financial instruments in the accounts on the date they are incurred. The Bank measures all other financial instruments at initial recognition at fair value plus transaction costs.

On initial recognition of a financial instrument, the Bank recognises a gain or loss on the difference between the fair value of the financial asset or financial liability and the contractual amount in the discount/premium accounts if the effective interest rate on the instrument is higher or lower than the market rate. The difference between the fair value of the financial asset or financial liability and the contractual amount in transactions with the Bank's shareholders is recognised in equity in accounts of class 5 Bank's "Bank's equity" of the Chart of Accounts and included in retained earnings (loss) over the period of its holding or in the total amount on disposal of the financial instrument.

Note 4.3. Classification and evaluation of financial instruments

Classification of financial instruments of the Bank is based on a combination of the business model of financial tool management and characteristics of cash flows.

Types of business models of the Bank:

- 1) Designed to collect cash flows under the agreements that arise from a financial asset (Hold to collect);
- 2) Designed to collect cash flows under the agreements that arise from a financial asset and from their sale (Hold to collect and sell);
- 3) Other models (the remaining one, that is there is no definition of the model at fair value).

The Bank, after initial recognition, evaluates a debt financial asset based on a business mode and characteristics of the cash flows provided for by the agreement, for:

- 1) the depreciated cost (DC);
- 2) the fair value with the price change recognition in other comprehensive income (FVOCI);
- 3) the fair value with the price change recognition through profit/loss (FVPL).

In the absence of an active market, the basis for determining current fair value is data on recent contracts made between unrelated parties. Amounts received during forced transactions (forced sale of property to repay debts, during liquidation, etc.) are not fair value. To determine the fair value of financial instruments for which there is no information on market prices from external sources, valuation techniques such as discounting cash flows and analysis of financial information about investees are used. The application of valuation techniques may require assumptions that are not supported by market data. Information is disclosed in cases where replacing such an assumption with a possible alternative option could lead to a material change in the amount of profit, income, expenses, total assets or liabilities.

Note 4. Summary of significant accounting policies (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus the amount of funds received or paid [principal, interest income (expense) or other payments associated with the initiation of the financial asset or financial liability], plus or minus the amount of cumulative amortisation calculated using the effective interest rate— the difference between the amount initially recognised and the financial assets or financial liabilities redemption amount.

The historical cost of an asset when it is acquired or constructed is the amount of expenditure incurred to acquire or construct the asset, comprising the consideration given to acquire or construct the asset and transaction costs. The historical cost of a liability when it is incurred or assumed is the amount of consideration received to issue or assume the liability, less transaction costs.

The Bank measures and carries a debt financial asset at amortised cost if all of the following conditions are met:

- 1) the financial asset is withheld within the framework of a business model, which is aimed withholding the financial assets for cash flows provided for by the agreement;
- 2) the financial asset agreement provides for a receipt of cash flows at the specified dates, which are exclusively payments for the principal amount and interest on the outstanding part of the principal amount.

The Bank assesses the debt financial asset at the fair value with the price change recognition in other comprehensive income and records it in its books of account, provided that the following conditions are fulfilled simultaneously:

- 1) the financial asset is withheld within the framework of a business model, the purpose of which is achieved both through a receipt of the cash flows provided by the agreement and through the sale of financial assets;
- 2) the financial asset agreement provides for a receipt of cash flows at the specified dates, which are exclusively payments for the principal amount and interest on the outstanding part of the principal amount.

The Bank assesses all other debt financial assets at the fair value with the price change recognition through profit/loss and records it in its books of account, if such financial assets do not meet the criteria for their subsequent assessment at the depreciated cost or at fair value with the price change recognition through other comprehensive income.

At the initial recognition of a financial asset, the Bank may, at its discretion, classify it, without the right to further reclassification, as being recognized at fair value with the price change recognition through profit/loss, if such classification eliminates or significantly reduces the inconsistency of valuation of assets or liabilities, or recognition of profits and losses associated with them.

Note 4. Summary of significant accounting policies (continued)

Financial liabilities

After the initial recognition, the Bank assesses all financial liabilities at depreciated cost and records them in its books of account, except for:

- 1) financial liabilities recognized at fair value with the price change recognition through profit/loss (financial liabilities intended for trading, including derivatives) or those that the Bank determined by its own decision to measure through the FVPL in order to reduce the disparities in the accounting);
- 2) financial liabilities that arise when transfer of a financial asset does not meet the conditions for derecognition or when the principle of continuing participation applies;
- 3) financial guarantee, aval, surety agreements;
- 4) loan commitments at a rate below the market one;

Note 4.4. Impairment of financial assets

While assessing all financial assets bank determines the class of debtor/counterparty based on the evaluation of financial state of the bank debtor/counterparty.

Financial status is considered to be «good» if:

- Class of debtor is in range of 1 to 8 (for legal entities), from 1 to 3 (for individuals, budget institutions and specialized loans);
- No overdue debt
- Debtor complies with terms, agreed upon by the contract
- Growth dynamics of debtor is assessed as positive
- The prerequisites of worsening of debtors' financial state are absent (taking into account their field) or prerequisites for substantial growth of credit risk.

Financial status is considered to be «satisfactory» if (at least one of the criteria):

- Class of debtor is 9(for legal entities), 4 (for individuals, budget institutions and specialized loans);
- No overdue debt
- Debtor complies with terms, agreed upon by the contract
- Growth dynamics of debtor is assessed as positive, but the growth is slow
- There are prerequisites of worsening of debtors' financial state (taking into account their field) or prerequisites for substantial growth of credit risk.

Financial status is considered to be «unsatisfactory» if (at least one of the criteria):

- Class of debtor is 10 (for legal entities), 5 (for individuals, budget institutions and specialized loans);
- Overdue debt is present
- Debtor does not comply with terms, agreed upon by the contract
- Growth dynamics of debtor is assessed as negative
- There are prerequisites of worsening of debtors' financial state (taking into account their field) or prerequisites for substantial growth of credit risk.

Note 4. Summary of significant accounting policies (continued)

The Bank recognizes the fair value reserve for the expected credit losses for:

- financial assets assessed at the depreciated cost;
- financial assets assessed at the fair value with the price change recognition through other comprehensive income;
- loan commitments and financial guarantees;
- financial receivables;

The expected losses of the Bank in regard to the reserve formation mean the risk of loss incurred as a result of one or more circumstances:

- failure to fulfil (improper fulfilment) of obligations by the Debtor of the Bank under the active transactions or as a result of failure to fulfil obligations by the Debtor, whose proper fulfilment of obligations is ensured by the obligations assumed by the Bank;
- impairment (decrease in value) of the Bank's financial tools;
- availability and recognition by the Bank of signs indicating a high credit risk and/or default of the Debtor;
- increase in the liabilities and/or expenses of the Bank in comparison with those previously reflected in the accounting.

When assessing financial tools, the Bank applies the model of "Expected Credit Losses" (ECL), which is a recognition of impairment both on financial assets and liabilities, beginning from the date of initial recognition, and provides for 3 stages of impairment:

Stage 1— financial tools without considerable credit risk growth (risk assessment/creation of reserves is carried out within 12 months);

Stage 2— financial tools with considerable credit risk growth (risk assessment/creation of reserve is carried out for the entire duration of the agreement);

Stage 3- impaired financial tools (risk assessment/creation of reserves is carried out for the entire duration of the agreement).

Reserves are divided into:

- the fair value reserves for financial tools of stage 1 of impairment (expected credit losses within 12 months) – the part of expected credit losses during the whole term of usage of financial instrument, that can occur as a result of default during the next 12 months;
- the fair value reserves for financial tools of stage 2 or 3 of impairment (expected credit losses within the entire validity of the financial asset) – expected credit losses that occur as a result of all possible default scenarios during the expected usage of financial instrument

The expected credit losses (or fair value reserves) are determined as the weighted average value of credit losses, determined using the appropriate probabilities of occurrence of default as weighting factors.

If there are signs of a significant increase in the credit risk, the Bank calculates the expected credit losses from impairment of financial assets on individual (for material financial tools) or

portfolio (for non-material financial tools) basis using the scenario approach.

The Bank calculates the amount of expected credit losses from impairment of financial tools for each scenario on individual basis at the reporting date as an amount in excess of the gross carrying amount of the financial asset over the current value of the estimated future cash flows for that asset and from enforcement of the security.

In the short-term transactions with other Debtors and/or active transactions, under which the amount of tranches and the term of their repayment is unknown, the amount of expected credit losses is determined as the product of the probability of default, the gross carrying amount of the- financial asset and the level of losses in the event of default.

Note 4.5. Derecognition of financial assets

Financial assets. A financial asset (or, where applicable a part of a financial asset or Bank of similar financial assets) is derecognized when the assets are redeemed or the rights to receive cash flows from the assets have otherwise expired, or the Bank has transferred substantially all the risks and rewards of ownership or has not transferred and retained basically all the risks and rewards of ownership but has ceased to exercise control. Control is retained if a counterparty does not have the practical ability to sell the asset to an unrelated third party without additional- restrictions on resale.

Financial liabilities. A financial liability is derecognized when it is discharged or cancelled or expires. When one existing financial liability is replaced by another to the same lender on substantially different terms, or when the terms of existing liabilities change, the initial liability is withdrawn from the account with subsequent recognition of a new financial instrument, and the difference between the respective carrying amounts is recognized in the statement of comprehensive income.

Note 4.6. Cash and cash equivalents

Cash and cash equivalents. Cash and cash equivalents are assets which can be converted into cash at short notice and which have low risk of change in value. Cash and cash equivalents are unrestricted balances on correspondent accounts with the National Bank of Ukraine and other banks with maturity up to three months, which may be freely converted to the respective amount of cash in a short period of time.

In 2023, the Bank changed its approach to the recognition of NBU deposit certificates, namely, reclassified deposit certificates from the balance sheet item "Investments in securities" to the balance sheet item "Cash and cash equivalent", as NBU deposit certificates are not an investment instrument, but are one of the monetary regulation instruments of the National Bank of Ukraine aimed at absorbing excess liquidity in the banking market. In accordance with IFRS, this change is considered a change in accounting policy. In addition to the changes in the Statement of Financial Position described above, this resulted in changes to the cash equivalents balances in the Statement of Cash Flows (direct method) at the beginning and end of the reporting period, as well as changes to the disclosures in Notes 6 "Cash and cash equivalent" and 8 "Investments in securities".

Note 4.7. Due from other banks

Due from other banks are short-term deposits and loans, as well as overnight loans and deposits, for which interest is accrued and provisions for depreciation of possible losses under credit transactions are formed. For the purposes of reporting in "Due from other bank". Bank account balances on correspondent accounts in other banks, on which there is an interest and /or formed provisions for impairment of possible losses on credit operations.

Note 4.8. Loans and advances to customers

Customer loans are financial assets that are not derivatives of financial instruments, with fixed or determined payments, which are not quoted (listed) in an active market, except for assets classified as other categories of financial assets.

Loans granted by the Bank are initially recognized at fair value plus related transaction costs. Subsequently, loans are carried out at amortized cost using the effective interest rate method. Loans to customers are recognized net of any allowance for impairment losses. Interest income and impairment losses are recognized in profit and loss.

Lending commitments. The Bank undertakes credit commitments including financial guarantees. Financial guarantees are irrevocable obligations of the Bank to make payments in the event and on the terms and conditions that the client is unable to fulfill his obligations to third parties. Financial guarantees are subject to the same risk as loans.

Note 4.9. Securities transactions

Securities trading activities are carried out by the Bank in accordance with the license of the National Commission on Securities and Stock Market. These operations are performed by the Bank in accordance with the legislation of Ukraine, regulations and duly executed agreements.

During the initial recognition of securities measured at fair value through profit or loss, the Bank measures them at fair value, net of transaction costs. The costs of transactions for the purchase of such securities are reflected in the accounting of expense accounts on the date of their implementation.

All other securities at initial recognition are measured at fair value plus transaction costs.

Securities in the Bank's portfolio that are carried at amortized cost are initially recognized at fair value with the reflection of income and expenses related to the purchase on the discount / premium accounts.

The fair value of the securities at the date of the transaction / reporting date after initial recognition is determined using the following priority methods:

- quotation price of the buyer (last bid price),
- reference to the market price of another similar financial instrument
- on the basis of market yields to maturity resulting from the trading of similar financial instruments for the last month preceding the reporting date,
- on the basis of latest market transactions between interested non-related parties

Note 4. Summary of significant accounting policies (continued)

At each reporting date after recognition, all securities purchased by the Bank are measured at fair value, except:

- securities that are carried at amortized cost;
- shares and other non-fixed income securities carried at fair value through profit or loss, the fair value of which cannot be measured reliably.

At each subsequent reporting date, securities measured at amortized cost using the effective interest rate are reviewed for impairment (as the difference between the asset's carrying amount and the present value of estimated future cash flows).

The Bank forms reserves for securities issued by non-bank financial institutions. The Bank does not form reserves for securities issued by central executive bodies and the National Bank of Ukraine. Debt on securities recognized by the Bank as bad is written off against the created reserves by the decision of the Management Board of the Bank.

During the reporting year, the Bank's portfolio of securities carried at fair value through other comprehensive income consisted of domestic government bonds and debt securities issued by non-bank financial institutions.

During the reporting year, the Bank's securities portfolio, carried at amortized cost, consisted of bonds issued by non-bank financial institutions and certificates of deposit of the National Bank of Ukraine.

Note 4.9.1. Contracts of sale (purchase) of securities with the obligation to repurchase (sell)

Contracts for the sale (purchase) of securities with the obligation to repurchase (sell) the Bank recognizes as granted (received) a loan secured by securities and accounts for amortized cost. The difference between the sale price and the reverse repurchase price is the interest expense and is recognized in profit or loss over the term of the repurchase agreement using the effective interest rate method.

The Bank continues to recognize securities that have been sold with a repurchase obligation prohibiting the buyer from selling or pledging them in the fair value portfolio, through gains or loss or securities portfolios at fair value through other comprehensive income. If the repurchase agreement gives the buyer the right to sell or pledge the securities, the Bank shall reclassify such securities as securities receivables.

During 2023, the Bank carried out transactions of purchase and sale of securities under repurchase agreements, which were recorded as a credit transaction with interest income recognition and continued recognition of securities in the portfolio, measured at fair value through other comprehensive income from repurchase agreements.

Note 4.9.2. Transactions with own debt securities

The Bank initially measures and reflects in accounting debt financial liabilities for own debt securities (hereinafter— own debt bonds) at fair value, taking into account transaction costs.

When placing own debt bonds, the Bank recognizes profit or loss in the amount of the difference between the fair value of the bonds and the contract value in correspondence with the discount / premium accounts and the accounts for income or expense in the initial recognition of financial liabilities, higher / lower than fair. If information on the fair value of own debt bonds is missing, income or expense is not recognized in the initial recognition of financial liabilities.

Note 4. Summary of significant accounting policies (continued)

The Bank assesses and reflects in the accounting of bonds of own debt at amortized cost the next balance sheet date after recognition. The Bank recognizes in the accounting interest expenses on debt financial obligations on securities of own debt at the effective interest rate.

The Bank pays the income / repayment of amounts on debt financial obligations on own debt securities in time in accordance with the terms of issue of securities according to the register of securities holders, formed by the National Depository, based on the order issued by the Bank.

Note 4.10. Fixed assets

Fixed assets and other non-current tangible assets are accounted for in accordance with the requirements of the Regulations on financial accounting of fixed assets and intangible assets. The fixed assets are recognized by the Bank at the historical cost. The cost of acquired fixed assets and other non-current tangible assets includes all expenses associated with the acquisition, delivery, installation and putting into operation. Administrative and other expenses not directly related to an acquired asset or its putting into operation were not included to the historical cost of an asset. Assets' current repair and maintenance expenses expensed as incurred and do not affect the carrying amount of non-current assets.

Depreciation is calculated on a straight-line basis. Depreciation starts from the first day of the month following the reporting one, in which the object of fixed assets and intangible assets became suitable for beneficial use and stops on the next month to retiring of the object of fixed assets and intangible assets.

Depreciation of the object of fixed assets and intangible assets is counted based on the new useful life, starting from the month following the month of change of useful life.

In the estimation of the useful lives of the assets the following criteria were taken into account: expected useful life of an object, taking into account it's capacity; useful life of similar assets; estimated deterioration of the asset; legal and other constrictions regarding the useful life of an asset and other factors. Useful life of a fixed asset is re-estimated in case of change in expected profits from its use.

Note 4.11. Intangible assets

Intangible assets are measured and accounted for at cost, which comprise the actual cost of acquisition (production) and bringing to a state in which they are suitable for use according to the intended purposes.

Depreciation is calculated monthly using a straight-line method under the norms set according to useful lives of corresponding assets. The useful life of an intangible asset is established by the Bank independently taking into account the following criteria: prior experience operating with similar assets, current trends in software development, performance characteristics.

Finite useful lives of intangible assets are approved by the commission of the Bank, but not more than 10 years. The largest share of intangible assets constitutes assets with useful lives of 10 years.

During the reporting year as per meeting constant Fixed assets and intangible assets inventory commission decided on setting new term of effective use of individual intangible assets as a result of regular changes to software and changes in assessment of profits from its usage (starting from 27.05.2022), based on the estimate of their depreciation, power output and productivity.

Note 4. Summary of significant accounting policies (continued)**Note 4.12. Leases.**

The lease is concluded by a contract which gives the user (the lessee) the right to control the use of the asset (the underlying asset) for a certain period in exchange for compensation.

The Bank assesses the lease as a whole or individual components as a lease, if the asset is identified, the Bank is entitled to receive virtually all economic benefits from the use of the identified asset throughout its useful life, the Bank is given the right to determine how the asset is used in exchange for compensation, the lessor does not have a material right to replace the asset during its useful life.

The Bank uses the practical expedient of not recognizing the right to use the lease assets and liabilities for short-term leases with a term not exceeding 12 months from the date of its first use, as well as for the lease of low value assets. Lease payments under such contracts are recognized as an operating expense over the life of the contract. A lease that contains acquisition opportunities is not a short-term lease.

In other cases, the Bank, as a lessee, recognizes the lease asset (lease obligation) at the effective date of the lease. The Bank initially recognizes an asset at right-of-use value, which includes the amount of the initial estimate of the lease liability, the lease payments made on or before the lease date, less the incentive lease received, the initial direct costs incurred by the Bank, costs incurred for dismantling, moving, and bringing the underlying asset to the condition required by the terms and conditions of the lease.

The Bank recognizes the lease liability at the present value of the lease at the present value of the lease payments not paid at that date. The lessee discounts the payment for the right to use the underlying asset for the lease term (lease payments), using the interest rate specified in the lease. The tenant applies the NBU discount rate if the rate is not specified in the lease agreement.

The net present value of the lease payments is recognized as a financial liability. The rent payments themselves are divided into principal and interest payments using the effective interest method. If the lease payment includes a VAT amount, the Bank displays the VAT amount in separate account.

The right to use the assets is amortized on a straight-line basis over the lease term. If the amount of the lease payments is expected to change, the obligation is revalued, such adjustment is made, together with a corresponding recalculation of the right to use the assets value.

Note 4.13. Derivative financial instruments.

A derivative financial instrument is a financial instrument or other contract with the following characteristics: its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable; it requires no initial net investment that is smaller than would be required for other type of contracts that would be expected to have a similar response to changes in market factors; it is settled at a future date.

A derivative instrument is recognized as a financial asset or financial liability on the date of obligation regarding purchase or the sale of a contract subject. Derivative financial instruments include currency swaps, forward transactions, foreign exchange spot transactions and combinations of these instruments

Note 4. Summary of significant accounting policies (continued)

Derivative financial instruments are recognized at fair value through profit or loss. Derivatives are carried as assets when their fair value is positive or as liabilities when their fair value is negative. The fair value of derivatives that are not sold and not acquired in an active market is determined using valuation techniques.

Note 4.14. Funds raised

Due to other banks are recognized upon the receipt of funds by the Bank. Non-derivative financial liabilities are accounted for at amortized cost.

Due to customers comprise non-derivative financial liabilities to government and corporate customers, individuals, and are accounted for at amortized cost.

The Bank recognizes interest expenses on borrowed funds at least once a month in profit or loss and other comprehensive income (Statement of comprehensive income).

Note 4.15. Provisions for liabilities

Provisions for liabilities are determined and recognized in the financial statements when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Note 4.16. Income tax

Current income tax expense is determined based on tax laws and current tax rates for the period in which the income is earned.

Current income tax and deferred income tax are determined and recognized in the financial statements separately.

Current income tax and deferred income tax are recognized as expenses in the Statement of Financial Results, except for accrued income tax as a result of revaluation of assets to fair value, which is reflected in the composition of the Bank's capital.

Deferred taxes are recognized when there is a temporary difference between the carrying amount of the asset or liability in the statement of financial position and its tax base.

Deferred tax liabilities are recognised for all deductible temporary differences that are taxable in the future. Deferred tax assets are recognised for all deductible temporary differences and unused tax loss carry forwards and are recorded to the extent that it is probable that it is probable that taxable profit will be available against which the deductible differences can be utilised or the tax loss carry forwards can be utilised.

Deferred tax assets and liabilities are measured using the balance sheet liability method at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date of that period. Deferred tax assets and liabilities are not discounted.

Note 4.17: Share capital

Share capital represents the shareholders' obligations to contribute funds by subscription to the share capital, the amount of which is registered in accordance with the procedure established by the legislation of Ukraine.

Note 4. Summary of significant accounting policies (continued)

In accordance with the Laws of Ukraine "On Banks and Banking activity" and "On Joint Stock Companies" and the Bank's charter, the decision to issue shares is made by the General Meeting of Shareholders.

Note 4.18. Dividends

Dividends represent a portion of the Bank's profit distributed between the Shareholders based on each of their shares to the extent determined by the General Meeting of the Shareholders within a period not later than six months after the end of the reporting year. Bank pays dividends entirely in cash.

Note 4.19. Income and expenses recognition

Income and expenses are recognized according to the principles of accrual, correspondence of income and expenses, prudence.

Income and expenses are recognized by the Bank, provided there is a high probability that the Bank will receive economic benefits.

As a result of operating activities, the following income and expenses arise at the Bank:

- interest income and expenses;
- fee and commission income and expenses;
- profits (losses) on trading transactions;
- dividend yield;
- cost of formation of special provision;
- income from repayment of assets previously written off;
- other operating income and expenses;
- general administrative expenses;
- income tax.

Interest income and expenses are operating income and expenses obtained (paid) by the Bank for the use of cash, cash equivalents or amounts owed to the Bank (raised by the Bank), amount of which are calculated in proportion to time using the effective interest rate. They include:

- income (expenses) from operations with funds placed in other banks (attracted from other banks);
- income (expense) on loans and deposits granted (received) to legal entities and individuals, and on other financial instruments, including securities;
- income in the form of a discount (premium) amortization.

Interest and related commissions are charged at least once a month, irrespective of the actual frequency of settlements with a counterparty stipulated by an agreement.

Note 4. Summary of significant accounting policies (continued)

Fee and commission income and expenses (hereinafter- "the commission")— operating income and expenses for provided (received) services, the amount of which is calculated in proportion— to the amount of an asset or liability, or is fixed. The commissions for provided (received) services depending on the purpose of evaluation and accounting base of an associated financial- instrument are divided into:

- the commissions that are an essential part of income (expenses) of a financial instrument;
- the commissions received (paid) at the time-of-service provision are recognized a income (expenses);
- the commissions received (paid) after certain actions are recognized as income (loss), after completion of a certain operation.

Commission income (expenses) for services that are provided continuously (settlement and cash service) were accounted for throughout the term of the agreement. The Bank recognizes income (expenses) for one-time services [for example, commissions for currency exchange, provision (consultations)] without reflection in the accounts of accrued income (expenses), if the funds received (paid) in the reporting period in which the services are actually provided (are obtained).

Profits (losses) from trading operations— a result (profit or loss) from operations of purchase and sale of various financial instruments. The Bank recognizes profits and losses regarding securities— transactions, foreign currency transactions, bullion (banking metals) transactions from:

- sale of financial investments;
- changes in valuation (revaluation) of investments to fair value;
- assets and liabilities revaluation result in foreign currency and banking metals in case of a change of the official UAH rate against foreign currencies (bank metals).

Gains (losses) on impairment of financial assets represent losses incurred in respect of the Bank's assets and write-offs of uncollectible assets.

Dividend yield— income generated from the Bank's use of securities with variable income.

Income from repayment of assets previously written off are the funds obtained for debt repayment recognized by the Bank as a bad debt.

Employee Benefits Expenses— maintenance costs for the Bank's employees [salaries, social security costs, statutory charges, insurance, surcharges, bonuses, training, etc.).

Depreciation and amortization costs are the systematic distribution of the value of fixed assets and intangible assets that are amortized over their useful life (use).

Other operating income and administrative expenses are income and expenses from transactions not related to investing and financing activities, as well as those not included in the above Banks of operating income and expenses, including:

income (loss) from operating leasing; expenses for audit services; cash collection expenses; forfeit (penalties, fines) received (paid) for banking operations, others.

Note 4. Summary of significant accounting policies (continued)

General administrative expenses are operating expenses incurred to ensure that the Bank will be able to continue as a going concern. These include staff costs (salaries, social security costs, mandatory charges, insurance, additional payments, bonuses, training, etc.); amortization of intangible assets; costs of maintenance and operation of fixed and intangible assets (repairs, insurance); other operating expenses (utilities, security, etc.); fees for professional services (legal, etc.); communication costs (postage, telephone, etc.); payment of taxes and other mandatory payments, other than income tax, and other expenses aimed at maintenance and management of the Bank.

Income tax— the Bank's operating expenses related to tax payment in accordance with the current legislation of Ukraine and the requirements of international accounting standards and national regulations (standards) of accounting regarding the recognition of deferred tax liabilities and tax assets.

Income and expenses recognized by the Bank are Banked according to their nature in the relevant items of the financial statements in the "statement of comprehensive income". In order to determine the financial result of the reporting period the income of the reporting period is reconciled with the expenses incurred to obtain this income. Income and expenses are accounted for as incurred, regardless of the date of receipt or payment of cash assets. Income and expenses of the Bank are accounted for using the basic accounting principles, in particular, accrual, matching and prudence concepts.

Note 4.20. Foreign currency revaluation

Income and expenses in foreign currencies were disclosed in the statement of comprehensive income at the official foreign exchange rate set by the National Bank of Ukraine at the transaction date. Foreign exchange differences arising in respect of foreign currency transactions are recognized as income or expenses of the reporting period.

The Bank's assets and liabilities in foreign currencies are stated at the official foreign exchange rate as at the reporting date.

The official foreign exchange rates as at December 31, 2023 were as follows:

840=USD=100=3798,24 UAH

978=EUR=100=4220,79 UAH

Monetary balance sheet items in foreign currencies are accounted for using the current foreign exchange rate; non-monetary items stated at historical cost, deposit of which to the balance is related to a foreign currency transaction, are accounted for at the foreign exchange rate at a transaction date. All foreign currency accounts are revalued every time the official foreign currency rate of the National Bank of Ukraine changes.

The Bank's management policy on the risk of losses due to changes in foreign exchange rates is disclosed in the General Information on the Bank's activities in 2023 and in the note "Financial Risk Management".

Note 4.21. Mutual offset of assets and liabilities

Financial assets and liabilities with subsequent inclusion in the statement of financial position of only their net amount can be mutually offset only if there is a legally enforceable right to offset the recognized amounts, if there is an intention to settle a transaction on a net basis or to realize simultaneously an asset and settle a liability.

The Bank did not offset assets and liabilities during the reporting period.

Note 4. Summary of significant accounting policies (continued)**Note 4.22. Employee benefits and related charges**

The Bank recognises employee benefits expense at least monthly in the Statement of Profit or Loss and Other Comprehensive Income. Such benefits include basic and additional salaries, annual basic and additional leave, compensation for the first 5 days of temporary disability, bonuses and performance-related remuneration, expenses for provision for unused vacation time, expenses for non-state pension benefits for the Bank's employees, as well as payroll taxes and unified social security contributions.

Note 4.23. Business segment reporting

The Bank primarily focuses on one business segment, namely treasury operations, which includes"

- activities in the monetary market regarding attraction and investment of funds in the interbank market of Ukraine;
- foreign exchange market services including foreign currency transactions at the customers' disposal and at the Bank's expense.

Other operations comprised assets (liabilities) not included in the main segment, such as cash, correspondent accounts in the National Bank of Ukraine, liabilities related to the administrative and economic activities of the Bank, settlements with employees, settlements in respect of taxes and levies to the state and local budgets, to the Pension Fund, other extra budgetary funds.

During 2023, the Bank did not apply transfer pricing methods in the preparation of financial statements by business segments, given the characteristics of the organizational structure.

Note 4.24. Significant accounting estimates and assumptions

The Bank in its operational, financial, investment and economic activities makes estimates and assumptions that affect the amounts recognized in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually revised and are based on the Management's experience and other factors, including — expectations of future events that are considered to be reasonable for the circumstances. In addition to the judgments that provide for estimates, the Management also uses assumptions in applying the accounting policies. The results of review of estimates and assumptions are recognized in the review period and valid until the next revision of estimates and assumptions.

Assumptions that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause significant adjustments to the carrying amount of assets and liabilities within subsequent financial periods include:

Related party transactions

In the normal course of business, the Bank enters into transactions with related parties. In the absence of an active market for such transactions, assumptions are used. The basis for assumptions is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Note 4. Summary of significant accounting policies (continued)*Cost of financial instruments*

The Bank shall account for financial instruments at fair value upon their initial recognition. In the absence of an active market for a particular financial instrument, the Bank uses its professional judgement to arrive at a market (non-market) rate based on transactions between independent, knowledgeable and willing parties, which are all parties to the Bank's transactions.

Going concern

The fundamental assumption in preparing the financial statements is the going concern basis of accounting— the Bank assumes that it will continue in operation for the foreseeable future and has no intention or need to liquidate or significantly reduce its operations.

Note 4.25. Related party transactions

During 2023, the Bank carried out transactions with related parties, detailed information regarding which is disclosed in the Note 34 "Related party transactions".

Note 5. New and amended standards**STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

The amendments are not expected to have a material impact on the Bank's financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

Note 5. New and amended standards (continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively.

The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Supplier Finance Arrangements-- Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted, but will need to be disclosed.

The amendments are not expected to have a material impact on the Bank's financial statements.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

This standard does not apply to the Bank.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

These amendments did not affect the Bank's financial statements.

Note 5. New and amended standards (continued)***Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2***

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

These amendments affected the Bank's disclosure of accounting policies, but not the assessment, recognition or presentation of any items in the Bank's financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities.

These amendments did not affect the Bank's financial statements.

Amendments to IAS 12 - International Tax Reform - Undertaxed Payments Rule

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Undertaxed Payments rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date. The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31.12.2023.

These amendments did not affect the Bank's financial statements.

(in UAH thousand)

Note 6. Cash and cash equivalents

	2023	2022
Cash with the National Bank of Ukraine	55 516	54 959
Correspondent accounts at other banks:	246 397	620 809
- Ukraine	246 397	620 809
Provisions for impairment of cash and cash equivalents	310 853	8 480 675
Total cash and cash equivalents	(49 081)	(111 488)
Cash with the National Bank of Ukraine	563 685	9 044 955

In 2023, the presentation of the NBU deposit certificates was changed, namely, these deposit certificates were presented in the balance sheet line "Cash and cash equivalents" instead of the balance sheet line "Investments in securities". The Bank's cash balances are kept on correspondent accounts with banks resident in Ukraine that are not bankrupt or in the process of liquidation and are not in temporary administration.

Note 7. Loans and due from customers**Note 7.1. Loans and due from customers**

	2023	2022
Loans and due from customers carried at amortized cost	74 747	58 377
Provision for loan impairment	(11 459)	(19 240)
Total loans to customers less provisions	63 288	39 137

Table 7.2. Loans and due from customers carried at amortized cost

	2023	2022
Loans to legal entities	73 211	52 455
Loans to individuals	1 536	5 922
Provision for loan impairment	(11 459)	(19 240)
Total loans to customers less provisions	63 288	39 137

The loan portfolio currently forms less than 5% of assets. Lending to customers is of a batch nature. The concentration of the loan portfolio by main borrowers remains relevant. At the same time, the credit portfolio of business entities is diversified by types of economic activity. The currency structure of the client credit portfolio did not change during the analyzed period. The Bank has no problem debt in its loan portfolio.

Table 7.3. Analysis of credit quality of loans and advances to customers carried at amortised cost as at 31.12.2023

	Stage 1	Stage 2	Stage 3	Total
Performing assets	38 750	-	-	38 750
Low credit risk	38 750	-	-	38 750
Medium credit risk	-	-	-	-
High credit risk	-	-	-	-
Non-performing assets*	-	-	35 997	35 997
Total loans and due from customers	38 750	-	35 997	74 747

* Assets, for which the class of debtors/counterparties is defined as the lowest, are non-operating assets

(in UAH thousand)

Note 7. Loans and due from customers (continued)**Table 7.4. Analysis of credit quality of loans and advances to customers carried at amortised cost as at 31.12.2022**

	Stage 1	Stage 2	Stage 3	Total
Performing assets	22 379	-	35 998	58 377
Low credit risk	22 379	-	-	22 379
Medium credit risk	-	-	-	-
High credit risk	-	-	-	-
Non-performing assets*	-	-	35 998	35 998
Total loans and due from customers	22 379	-	35 998	58 377

* Assets, for which the class of debtors/counterparties is defined as the lowest, are non-operating assets

Table 7.5. Analysis of changes in provisions for impairment of loans and due from customers carried at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Impairment reserve on January 1, 2022	(2 632)	-	-	(2 632)
(Increase)/decrease in provision for impairment during the year	1 075	-	(17 683)	(16 608)
Impairment reserve on December 31, 2022	(1 557)	-	(17 683)	(19 240)
(Increase)/decrease in provision for impairment during the year	(1 516)	-	9 297	7 781
Impairment reserve on December 31, 2023	(3 073)	-	(8 386)	(11 459)

The amount of the decrease of the provision UAH 7 781 thousand is an integral part of the amount UAH 70 679 thousand in the «Statement of profit or loss and other comprehensive income» («Net increase/(decrease) in provisions for impairment of financial assets»).

Table 7.6. Analysis of changes in gross book value of loans and due from customers carried at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Gross book value as at December 31, 2022	69 977	-	-	69 977
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	(35 998)	-	35 998	-
Other changes (repayment/provision)	(13 157)	-	(17 683)	(30 840)
Gross book value as at December 31, 2023	20 822	-	18 315	39 137

Taking into account the recognition of the Borrower's default, it was decided to assess the financial asset under Stage 3 in 2022. The transfer took place due to the deterioration of the Borrower's financial position and problems with fulfilment of obligations to the Bank in the future. During 2023, no decisions were made to transfer loans by stages of assessment.

(in UAH thousand)

Note 7. Loans and due from customers (continued)**Table 7.7 Loan structure by types of economic activities**

	2023		2022	
	Amount	%	Amount	%
Supply of electricity, gas, steam and air conditioning	37 214	51	16 457	31
Wholesale trade, except of motor vehicles and motorcycles	35 997	49	35 998	69
Real estate activities	73 211	100	52 455	100
Total loans and due from customers except for provisions				

Table 7.8. Information on loans by type of collateral as at December 31, 2023

	Loans to legal entities	Loans to individuals	Total
Loans unsecured	37 214	-	37 214
Loans secured by:	35 997	1 536	37 533
- real estate:	35 997	1 536	37 533
including residential purposes	-	1 536	1 536
Total loans and due from customers except for provisions	73 211	1 536	74 747

Table 7.9. Information on loans by type of collateral as at December 31, 2022

	Loans to legal entities	Loans to individuals	Total
Loans unsecured	16 457	1 280	17 737
Loans secured by:	35 998	4 642	40 640
- real estate:	35 998	4 642	40 640
including residential purposes	-	4 642	4 642
Total loans and due from customers except for provisions	52 455	5 922	58 377

The value of collateral in this note is stated in the amount of future expected flows from the collateral, taking into account the liquidity ratio of the collateral and costs of its sale, in accordance with the Bank's internal regulations.

Table 7.10. Impact of collateral value on loan quality as at December 31, 2023

	Carrying amount	Expected cash flows from sale of collateralized provisions	Collateral impact
Loans to legal entities	73 211	35 997	37 214
Loans to individuals	1 536	1 536	-
Total loans	74 747	37 533	37 214

(in UAH thousand)

Note 7. Loans and due from customers (continued)**Table 7.11. Impact of collateral value on loan quality as at December 31, 2022**

	Carrying amount	Expected cash flows from sale of collateralized provisions	Collateral impact
Loans to legal entities	52 455	35 998	16 457
Loans to individuals	5 922	4 642	1 280
Total loans	58 377	40 640	17 737

When calculating the allowance for impairment of financial instruments to comply with the principle of prudence, the Bank only considers highly liquid collateral, enforced collection of which is more reliable.

Note 8. Investment in securities**Table 8.1 Investment in securities**

	2023	2022
Securities carried at fair value through other comprehensive income	655 212	297 119
Total securities	655 212	297 119

In 2023, the presentation of NBU certificates of deposit was changed, namely, these certificates of deposit were presented in the balance sheet item "Cash and cash equivalents" instead of the balance sheet item "Investments in securities".

Table 8.2 Securities carried at fair value through other comprehensive income

	2023	2022
Government bonds	655 212	296 118
Bonds of enterprises	-	1 492
Provision for debt securities carried at fair value through other comprehensive income	-	(491)
Total securities	655 212	297 119

Government bonds are carried at fair value through other comprehensive income and comprise accrued interest accrued in the amount of UAH 24 974 thousand as at 31.12.2023.

Table 8.3. Analysis of the credit quality of investments in securities carried at fair value through other comprehensive income as at December 31, 2023

	Stage 1	Stage 2	Stage 3	Total
Performing assets				
Minimum credit risk*	613 780	-	-	613 780
Low credit risk	41 432	-	-	41 432
Medium credit risk	-	-	-	-
High credit risk	-	-	-	-
Non-performing assets	-	-	-	-
Total securities	655 212	-	-	655 212

(in UAH thousand)

Note 8. Investments in securities (continued)**Table 8.4. Analysis of the credit quality of investments in securities carried at fair value through other comprehensive income as at December 31, 2022**

	Stage 1	Stage 2	Stage 3	Total
Performing assets	297 610	-	-	297 610
Minimum credit risk*	247 551	-	-	247 551
Low credit risk	50 059	-	-	50 059
Medium credit risk	-	-	-	-
High credit risk	-	-	-	-
Non-performing assets	-	-	-	-
Total securities	297 610	-	-	297 610

Note 9. Derivative financial assets**Table 9.1. Financial assets at fair value through profit or loss**

	2023	2022
Assets under forward agreements	17	-
Assets under future agreements	-	-
Assets under contracts under terms of SWAP	-	-
Total financial assets at fair value through profit or loss	17	-

(in UAH thousand)

Note 10. Fixed and intangible assets

As at 31.12.2023, the Bank has no:

- fixed assets, possession, use or disposal of which is restricted by the current legislation;
- fixed assets pledged, withdrawn from service, temporarily not used or transferred to assets for sale;
- intangible assets, ownership of which is restricted or property rights are not registered;
- increase or decrease arising from revaluations and as a result of impairment losses recognized or created directly in equity.

Table 10.1. Fixed and intangible assets

	Machinery and equipment	Instruments, fixtures and fittings	Other fixed tangible assets	Intangible assets	Total
Carrying amount as at	967	26	-	1 447	2 440
December 31, 2021					
initial cost	3 063	355	1 085	3 352	7 855
depreciation	(2 096)	(329)	(1 085)	(1 905)	(5 415)
additions	3 007	-	55	60	3 122
Capital expenditure on additions to property, plant and equipment and improvements to intangible assets	131	-	-	668	799
Depreciation	(383)	(20)	(55)	(413)	(871)
Carrying amount as at	3 722	6	-	1 762	5 490
December 31, 2022					
initial cost	6 201	355	1 140	4 080	11 776
depreciation	(2 479)	(349)	(1 140)	(2 318)	(6 286)
additions	1 797	-	38	-	1 835
Capital expenditure on additions to property, plant and equipment and improvements to intangible assets	68	-	-	5 025	5 093
disposals*	(1 566)	-	-	-	(1 566)
depreciation	(880)	(6)	(38)	(685)	(1 609)
Carrying amount as at	3 141	-	-	6 102	9 243
December 31, 2023					
initial cost	6 500	355	1 178	9 105	17 138
depreciation	(3 359)	(355)	(1 178)	(3 003)	(7 895)

* In 2023, the Bank provided charitable assistance to the Armed Forces of Ukraine in the form of a donation of fixed assets.

(in UAH thousand)

Note 10. Fixed and intangible assets (continued)**Table 10.2. Right-of-use assets**

	Real estate (lease)	Total
Carrying amount as at December 31, 2021	78	78
Initial cost	933	933
Depreciation	(855)	(855)
Additions	1 130	1 130
Disposals	(1 208)	(1 208)
Carrying amount as at December 31, 2022	-	-
Initial cost	-	-
Depreciation	-	-
Additions	878	878
Disposals	(809)	(809)
Carrying amount as at December 31, 2023	69	69

Note 11. Other financial assets**Table 11.1. Other financial assets**

	2023	2022
Accrued income for services	50	1
Provisions for impairment of other assets	-	(1)
Total other financial assets less reserves	50	-

Table 11.2. Analysis of changes in provisions for impairment of other assets

	Prepayments for services	Total
Carrying amount as at January 1, 2022	(308)	(308)
(Increase)/decrease of the provisions during the period	307	307
Carrying amount as at December 31, 2022	(1)	(1)
(Increase)/decrease of the provisions during the period	1	1
Carrying amount as at December 31, 2023	-	-

(in UAH thousand)

Note 12. Other assets

	2023	2022
Deferred expenses	11 323	16 664
Other	1	1
Provisions for other assets	-	-
Total other assets less provisions	11 324	16 665

Note 13. Due to customers**Table 13.1 Due to customers**

	2023	2022
State organizations:	-	28
-currents accounts	-	28
-term deposits	-	-
Other legal entities:	762 138	8 751 853
-current accounts	533 183	8 622 555
-term deposits	228 955	129 298
Individuals:	109 814	347 231
-current accounts	94 174	336 099
-term deposits	15 640	11 132
Total due to customers	871 952	9 099 112

Table 13.2 Distribution of due to customers by type of economic activity

	Amount	2023 %	Amount	2022 %
Financial and insurance activities	137 602	15,78	8 066 700	88,65
Services (financial)	416 448	47,76	315 569	3,48
Information and telecommunications	0	0,00	3 662	0,04
Trade	138 276	15,86	46 423	0,51
Agriculture and fisheries	1 869	0,21	3 060	0,03
Warehousing and support activities in the field of transport	141	0,02	74 044	0,81
Extraction	0	0,00	1	0,00
Construction	30 351	3,48	2 267	0,02
Electricity supply	1 014	0,12	36 526	0,40
Consulting activities	21 788	2,50	12 998	0,14
Activities of public organizations	8	0,00	139	0,00
Manufacturing	7 047	0,81	3 349	0,04
Health care	0	0,00	3	0,00
Property transactions	2 094	0,24	350	0,00
Individuals, including non-residents	109 814	12,59	347 231	3,82
Non-resident investors	5 500	0,63	186 790	2,06
Total due to customers	871 952	100	9 099 112	100

(in UAH thousand)

Note 14. Debt securities issued by the bank

	2023	2022
Bonds (Series A)	4 702	4 610
Bonds (Series B)	2 612	2 560
Total	7 314	7 170

Series A (maturity until 08.04.2026 inclusive). The interest rate on the Series A bonds is set at:

- 10.0 per cent (ten per cent) per annum in UAH for 1-4 per cent periods;
- 11.0 (eleven per cent) per annum in UAH for 5-8 interest periods
- 20.0% (twenty per cent) per annum in hryvnia for 9-12 interest periods.

Series B (maturity until 07.04.2027 inclusive). The interest rate on the Series B bonds is set at

- 11.0% (eleven per cent) per annum in UAH for 1-8 interest periods;
- 20.0% (twenty per cent) per annum in UAH for 9-16 interest periods.

Note 15. Other funds raised

	2023	2022
Loans from international and other financial organizations	-	39 050
Total	-	39 050

Changes in liabilities arising from financing activities are related to cash flows.

Note 16. Derivative financial liabilities

	2023	2022
Liabilities under forward agreements	-	194
Liabilities under contracts under terms of SWAP	1 137	996
Total financial liabilities at fair value through profit or loss	1 137	1 190

Note 17. Provisions for liabilities

	Loan liabilities	Total
Opening balance	109	109
Formation and / or decrease (increase in reserve)	735	735
Closing balance	844	844

Provisions for liabilities consist of reserves for possible impairment losses on provided financial guarantees with maturity in 2024.

(in UAH thousand)

Note 18. Other financial liabilities

	2023	2022
Accounts payable for transactions with foreign currency	1	1
Other financial liabilities	-	-
Total	1	1

Note 19. Other liabilities

	2023	2022
Accounts payable in settlements with bank employees	16 600	15 603
Accounts payable for taxes and fees, except income tax	120	128
Accounts payable for transactions with customers	145	66
Accrued costs for telecommunications and maintenance services	39	58
Accounts payable on right-of-use assets	77	-
Accounts payable for other accrued expenses	42	42
Total	17 023	15 897

(in thousands)

Note 20. Share capital

	Number of shares in circulation	Ordinary shares	Preferred shares	Total
Balance as at January 1, 2023	122 000	122 000	-	122 000
Contributions on shares (units, shares) of the new issue	-	-	-	-
Balance as at December 31, 2023	122 000	122 000	-	122 000

As of December 31, 2023, the authorized capital of the Bank is UAH 200 080 thousand. The authorized capital of the Bank is divided into 122,000 ordinary registered shares. The shares are fully paid. The nominal value of a simple registered share as of 31.12.2023 is UAH 1,640. Ordinary registered shares entitle the shareholder to participate in the management of the Bank, receive dividends, exercise the pre-emptive right to purchase additional shares, if such shares are placed by private placement, disposal of shares owned by each shareholder, receiving part of the Bank's property or its value in case of liquidation. One simple registered share gives the right to one vote to resolve each issue at the General Meeting of Shareholders, except in cases of cumulative voting. Dividends are paid to shareholders based on each share of a certain type due to them from the net profit of the reporting year and / or retained earnings in the amount established by the decision of the General Meeting of Shareholders within six months after the end of the reporting year. The Bank pays dividends exclusively in cash.

There were no repurchases of own shares during the reporting period.

On 6 October 2023, the Bank's shareholder decided to increase the Bank's share capital by UAH 31,72 million at the expense of part of the retained earnings received from the Bank's operations for 2019-2022 by increasing the nominal value of shares from UAH 1,640 to UAH 1,900, which will increase the share capital to UAH 231,8 million after the relevant changes are registered.

(in UAH thousand)

Note 21. Revaluation reserves (components of other comprehensive income)

	2023	2022
Revaluation of debt financial instruments	(4 135)	(2 463)
Income tax relating to items of other comprehensive income that will be reclassified to profit or loss	1 033	443
Total revaluation reserves	(3 102)	(2 020)

(in UAH thousand)

Note 22. Analysis of assets and liabilities by maturities

Note	2023			2022			
	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total	
Assets							
Cash and cash equivalents	6	563 685	-	563 685	564 280	-	564 280
Loans and due from banks	7	34 141	29 147	63 288	14 975	24 162	39 137
Loans and due from customers	8	655 212	-	655 212	8 776 793	1 001	8 777 794
Investments in securities	9	17	-	17	-	-	-
Derivative financial assets	26	606	-	606	4 252	-	4 252
Fixed and intangible assets	10	-	9 243	9 243	-	5 490	5 490
Right-of-use assets	10	69	-	69	-	-	-
Other financial assets	11	49	-	49	-	-	-
Other assets	12	7 617	3 707	11 324	8 859	7 806	16 665
Total assets		1 261 396	42 097	1 303 493	9 369 159	38 459	9 407 618
Liabilities							
Due to customers	13	871 952	-	871 952	9 099 112	-	9 099 112
Debt securities issued by the bank	14	-	7 314	7 314	-	7 170	7 170
Other raised funds	15	-	-	-	39 050	-	39 050
Derivative finance liabilities	16	1 137	-	1 137	1 190	-	1 190
Current income tax liabilities		61 584	-	61 584	2 175	-	2 175
Deferred tax liabilities	26	-	-	-	258	-	258
Other financial liabilities	18	1	-	1	1	-	1
Other liabilities	19	17 023	-	17 023	15 897	-	15 897
Liability provisions	17	844	-	844	109	-	109
Total liabilities		952 541	7 314	959 855	9 157 792	7 170	9 164 962

(in UAH thousand)

Note 23. Interest income and expenses

	2023	2022
INTEREST INCOME CALCULATED AT THE EFFECTIVE INTEREST RATE		
Interest income on financial assets carried at amortized cost		
Loans and due from customers	9 536	12 728
Loans and due from banks	3 266	901
Correspondent accounts in other banks	140	1 178
Deposit certificates, bonds of Bank	231 171	654 885
Total interest income on financial assets carried at amortized cost	244 113	669 692
Interest income on financial assets carried at fair value through other comprehensive income		
Debt securities	96 747	130 322
Total interest income on financial assets carried at fair value through other comprehensive income	96 747	130 322
Total interest income calculated at the effective interest rate	340 860	800 014
INTEREST EXPENSES CALCULATED AT THE EFFECTIVE INTEREST RATE		
Interest expense on financial liabilities carried at amortized cost		
Term funds of legal entities	(404)	(106 989)
Funds of individuals	(30 238)	(26 557)
Term funds of other banks	(11 405)	(2 313)
Current accounts	(2 196)	(1 837)
Debt securities issued by the bank	(1 225)	(1 342)
Other funds raised	(33)	(349)
Lease liabilities	(108)	(45)
Other	-	-
Total interest expense calculated at the effective interest rate	(45 609)	(139 432)
Net interest income	295 251	660 582

Compared to the result of 2022, there was a decrease in net interest income.

Note 24. Commission income and expenses

	2023	2022
Commission income		
Settlement operations	5 623	2 533
Commissions on foreign exchange transactions	2 527	3 649
Commission income from guarantee operations	133	129
Other	9	10
Total commission income	8 292	6 321
Commission expenses		
Settlement operations	(1 223)	(1 280)
Transactions with securities	(17)	(8)
Other	(9)	(10)
Total commission expenses	(1 249)	(1 298)
Net commission income	7 043	5 023

Compared to 2022, there was a decrease in net commission income.

(in UAH thousand)

Note 25. Administrative and other operating expenses**Table 25.1 Employee benefit costs**

	2023	2022
Salaries and bonuses	(42 077)	(35 549)
Accrual on the salary fund	(5 227)	(4 383)
Other payments to employees	(849)	(834)
Total employee benefit costs	(48 153)	(40 766)

Table 25.2 Depreciation costs

	2023	2022
Depreciation of fixed assets	(1 277)	(402)
Depreciation of software and intangible assets	(724)	(468)
Depreciation of right-of-use assets	(809)	(486)
Total depreciation costs	(2 810)	(1 356)

Table 25.3 Other administrative and operating expenses

	2023	2022
Staff remuneration costs	(2 783)	(580 968)
Expenses for maintenance of fixed assets and intangible assets	(4 116)	(2 684)
Operating lease costs (lease)	(78)	(63)
Payment of other taxes and mandatory payments, except income tax	(4 344)	(3 089)
Telecommunication services	(954)	(810)
Audit costs	(4 099)	(2 017)
Costs of data storage services	(2 145)	(1 720)
Costs of operating and business services	(103 099)	(23 898)
Other	(2 531)	(1 346)
Reserve	(124 149)	(616 595)
Total administrative and other operating expenses		

The average number of the Bank's staff in 2023 was 27. Expenses for payments to employees and staff:

- expenses for basic and additional salaries in the amount of UAH 30 040 thousand
- single contribution to the obligatory state insurance – UAH 5 227 thousand
- expenses for the creation of a reserve for unused vacations – UAH 2 380 thousand;
- contributions to the non-state pension provision of employees - UAH 198 thousand;
- expenses of voluntary medical and other types of insurance for employees – UAH 1 060 thousand;

(in UAH thousand)

Note 25. Administrative and other operating expenses (continued)

In 2023, remuneration was paid to the members of the Supervisory Board (6 persons) in cash in the amount of UAH 1,740 thousand (2022: UAH 580,401 thousand), broken down as follows: variable - UAH 117 thousand (2022: UAH 580,087 thousand), fixed - UAH 1,623 thousand (2022: UAH 314 thousand). In-kind remuneration to the members of the Supervisory Board was paid in the form of insurance payments under the voluntary liability insurance agreement in the amount of UAH 396 thousand (2022: UAH 295 thousand). Remuneration to the members of the Management Board (4 persons) in cash was paid in the amount of UAH 12,767 thousand (2022: UAH 12,188 thousand), broken down as follows: variable - UAH 3,708 thousand (2022: UAH 3,569 thousand), fixed - UAH 9,059 thousand (2022: UAH 8,619 thousand).), as well as in-kind payments in the form of insurance premiums: under a voluntary liability insurance agreement in the amount of UAH 264 thousand (2022: UAH 197 thousand), under a voluntary medical insurance agreement in the amount of UAH 68 thousand (2022: UAH 68 thousand), and under a non-state pension agreement in the amount of UAH 48 thousand (2022: UAH 48 thousand). Remuneration to the Group's key management personnel (3 persons) was paid in cash in the amount of UAH 931 thousand (2022: UAH 1,111 thousand), broken down as follows: variable - UAH 55 thousand (2022: UAH 155 thousand), fixed - UAH 876 thousand (2022: UAH 956 thousand).), as well as in-kind payments in the form of insurance premiums: under the voluntary health insurance agreement in the amount of UAH 5 thousand (2022: UAH 17 thousand), under the non-state pension agreement in the amount of UAH 5 thousand (2022: UAH 9 thousand). In 2023, no variable remuneration was paid to the members of the Supervisory Board and the Management Board in non-monetary instruments.

The remuneration was not postponed and was paid on time. There were no facts of the Bank's use of the right to reduce/cancel/refund the variable remuneration previously paid to the members of the management body, influential persons.

The deficiencies in the remuneration regulations identified by the National Bank of Ukraine were taken into account and improved in accordance with the recommendations provided by the National Bank of Ukraine.

(in UAH thousand)

Note 26. Income tax expense**Table 26.1 Income tax expense**

	2023	2022
Current income tax	(108 827)	(4 117)
Change in deferred income tax	(3 978)	3 336
Income tax paid on income of foreign origin at the source of payment	-	-
Total income tax expense	(112 805)	(781)

Table 26.2 Reconciliation of the amount of accounting profit / loss and the amount of tax profit / loss

	2023	2022
Profit before tax	214 869	4 336
Theoretical tax deductions at the appropriate tax rate	(107 434)	(781)
Other adjustments	(1 225)	(3 336)
Expenses that are not deductible for tax purposes	12	-
Other adjustments	(3 978)	3 336
Change in deferred income tax	(180)	-
Income tax expense	(112 805)	(781)

Table 26.3 Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at December 31, 2023

	Balance as at December 31, 2022	Recognized in statement of comprehensive income	Recognized in equity	Balance as at December 31, 2023
Tax impact of temporary differences that reduce (increase) the amount of taxation and deferred tax losses for future periods:				
revaluation of assets	442	-	(110)	332
fixed assets	52	11	-	63
provisions for impairment of assets	73	138	-	211
accrued expenses	21	(21)	-	-
other	3 406	(4 106)	700	-
Net deferred tax asset / (liabilities)	3 994	-	258	-
Deferred tax liability recognized	4 252	3 978	332	606

(in UAH thousand)

Table 26.4 Tax consequences related to recognition of deferred tax assets and deferred tax liabilities as at December 31, 2022

	Balance as at December 31, 2021	Recognized in statement of comprehensive income	Recognized in equity	Other	Balance as at December 31, 2022
Tax impact of temporary differences that reduce (increase) the amount of taxation and deferred tax losses for future periods:					
revaluation of assets	301	-	141	-	442
fixed assets	56	(4)	-	-	52
provisions for impairment of assets	69	4	-	-	73
accrued expenses	21				21
other	(846)	3 336	-	916	(846)
Net deferred tax asset / (liabilities)	(399)		141		(258)
Deferred tax liability recognized		3 336		916	4 252

(in UAH thousand)

Note 27. Profit/(loss) per ordinary and preferred share**Table 27.1 Net and adjusted profit/(loss) per ordinary and preferred share**

	2023	2022
Profit / (loss) owned by shareholders - owners of ordinary shares of the bank (UAH thousand)	102 063	3 555
Profit / (loss) for the year (UAH thousand)	102 063	3 555
Average annual number of ordinary shares outstanding (thousands of shares)	122	122
Net profit / (loss) per ordinary share (UAH)	836,58	29,15
Adjusted net profit / (loss) per ordinary share, UAH		
base	836,58	29,15
diluted	836,58	29,15

Table 27.2 Calculation of profit/(loss) attributable to shareholders - holders of ordinary and preferred shares of the bank

	2023	2022
Profit / (loss) for the year owned by the owners of the bank	102 063	3 555
Retained earnings / (loss) for the year	102 063	3 555
Retained earnings / (loss) for the year due to holders of ordinary shares depending on the terms of the shares	102 063	3 555
Profit / (loss) owned by shareholders - owners of ordinary shares of the bank	102 063	3 555

(in UAH thousand)

Note 28. Operating segments**Table 28.1. Revenues, expenses and results of reporting segments for 2023**

	Operating segments		Total
	Treasury operations	Other	
Interest income	340 860	-	340 860
Fee and commission income	2 660	5 632	8 292
Result from transactions with financial instruments at fair value through profit or loss	1 302	-	1 302
Result from transactions with debt financial instruments at fair value through other comprehensive income	15 686	-	15 686
The result of foreign currency transactions	(226)	-	(226)
The result of the revaluation of foreign currency	978	-	978
Other operating income	2	-	2
Total income	361 262	5 632	366 894
Interest expenses	(45 609)	-	(45 609)
Fee and commission expenses	(17)	(1 232)	(1 249)
Net income from impairment of financial assets	70 679	-	70 679
Result from increase / (decrease) in reserves for liabilities	(735)	-	(735)
Staff costs	(48 153)	-	(48 153)
Depreciation and amortization costs	-	(2 810)	(2 810)
Other administrative and operating expenses	(121 366)	(2 783)	(124 149)
Total expenses	(145 201)	(6 825)	(152 026)
Income tax expenses	(112 805)	-	(112 805)

Table 28.2 Assets and liabilities of reporting segments for 2023

	Operating segments		Total
	Treasury operations	Other	
Segment assets	1 163 398	140 095	1 303 493
Total assets	1 163 398	140 095	1 303 493
Segment liabilities	880 403	79 452	959 855
Total liabilities	880 403	79 452	959 855

(in UAH thousand)

Note 28. Operating segments (continued)**Table 28.3. Revenues, expenses and results of reporting segments for 2022**

	Operating segments		Total
	Treasury operations	Other	
Interest income	800 014	-	800 014
Fee and commission income	3 781	2 540	6 321
Result from transactions with financial instruments at fair value through profit or loss	(4 686)	-	(4 686)
Result from transactions with debt financial instruments at fair value through other comprehensive income	(10 210)	-	(10 210)
The result of foreign currency transactions	5 195	-	5 195
The result of the revaluation of foreign currency	66 352	-	66 352
Other operating income	148	-	148
Total income	860 594	2 540	863 134
Interest expenses	(139 432)	-	(139 432)
Fee and commission expenses	(9)	(1 289)	(1 298)
Net income from impairment of financial assets	(59 329)	-	(59 329)
Result from increase / (decrease) in reserves for liabilities	(22)	-	(22)
Staff costs	(40 766)	-	(40 766)
Depreciation and amortization costs	-	(1 356)	(1 356)
Other administrative and operating expenses	(35 627)	(580 968)	(616 595)
Total expenses	(275 185)	(583 613)	(858 798)
Income tax expenses	(781)	-	(781)

Table 28.4 Assets and liabilities of reporting segments for 2022

	Operating segments		Total
	Treasury operations	Other	
Segment assets	9 287 115	120 503	9 407 618
Total assets	9 287 115	120 503	9 407 618
Segment liabilities	9 146 522	18 440	9 164 962
Total liabilities	9 146 522	18 440	9 164 962

Note 29. Financial risk management

The Bank has developed and implemented procedures for risk management and control. The risk management process is based on the relevant regulations of the National Bank of Ukraine. The Bank's risk management process consists of prevention, identification, measurement, analysis, mitigation, control and monitoring, reporting regarding all significant risks, to which the Bank is exposed in its activity.

Credit risk

Credit risk management, limiting its negative impact on the Bank's activities is one of the key tasks of strategic management. In accordance with the Recommendations of the Basel Committee on Banking Supervision, the Bank uses a standardized approach to credit risk assessment. The assessment is carried out in two directions: qualitative and quantitative.

In order to manage credit risk in transactions with legal entities and individuals, the Bank adheres to the following principles of credit policy:

- making investments exclusively in profitable and high-quality credit assets;
- a balanced approach to lending to corporate clients is based on the analysis of financial indicators, activities of enterprises, markets, industry trends, etc.;
- use of the principle of identification of the borrower "Know your client";
- decision-making on the loan is based on a qualitative analysis of the borrower's solvency, sources of loan repayment and prospects for business development;
- diversification of the loan portfolio taking into account industry risks, susceptibility to global trends, export orientation, market volatility.

The ratio of the sum of all requirements to the counterparty or group of related counterparties and all financial liabilities provided by the bank to the counterparty or group of related counterparties to the regulatory capital of the Bank (hereinafter H7) shall not exceed 25 percent. As of 31.12.2023, the value of the H7 standard was 8.1%.

Market risk

The Bank's risk management system is aimed at ensuring the implementation of business objectives in accordance with the Bank's development strategy and increasing its value, optimizing the ratio of potential opportunities and risks, capital size and growth rates of the Bank.

The main tools for achieving these goals are the Bank's comprehensive risk management system, which provides for the coordination of actions of all departments within a single strategy for risk management, approved by the Supervisory Board of the Bank.

(in UAH thousand)

Note 29. Financial risk management (continued)**Foreign currency risk****Table 29.1 Foreign currency risk analysis**

Currency	2023			2022		
	Monetary assets	Monetary liabilities	Net foreign exchange position	Monetary assets	Monetary liabilities	Net foreign exchange position
USD	189 540	185 286	4 255	181 772	175 001	6 771
EUR	123 800	125 031	(1 231)	153 535	157 843	(4 308)
Total	313 341	310 317	3 023	335 307	332 844	2 463

The risk of financial losses and the possibility of decrease in the cost of capital resulting from changes in foreign exchange rates and prices for precious metals, unfavourable (opposite) for existing open currency positions, is an important type of risk, which arises in the course of the Bank's activities. The amount of possible financial losses depends on the size of the open currency positions and changes in relevant foreign currencies.

Basic methods and models of currency risk management are determined in the "Regulations on currency risk management at JSC "BANK AVANGARD".

The internal limits for total open foreign exchange position are established at the Bank. The methodology and mechanisms of foreign currency risk management are updated constantly.

The process of foreign currency risk management at the Bank provides for daily monitoring of the compliance of the maximum possible open foreign exchange positions on the basis of acceptable values of capital at risk to the established limits of open currency positions, analysis of volatility in exchange rates and the amount of the foreign currency risk under regular and stress conditions.

Parametric assessment methods based on the assumption of normal distribution of currency fluctuation disturbances (Value-at-Risk methodology, etc.) appeared to be unsuitable for predicting the foreign currency risk magnitude at the Bank. In this situation, based on the analysis of currency fluctuations, a risk magnitude was estimated for each open currency position, as well as an acceptable risk magnitude. Accordingly, the limits for open currency positions were set, that are a subject to daily control of the risk management department and an instrument of foreign currency risk exposure limitation.

(in UAH thousand)

Note 29. Financial risk management (continued)**Table 29.2 Change in financial result and equity as a result of possible changes in exchange rates set at the reporting date, provided that all other variables remain fixed**

	2023		2022	
	Impact on profit/ (loss)	Impact on equity	Impact on profit/ (loss)	Impact on equity
USD strengthening by 25%	1 064	1 064	1 693	1 693
USD weakening by 25%	(1 064)	(1 064)	(1 693)	(1 693)
EUR strengthening by 25%	(308)	(308)	(1 077)	(1 077)
EUR weakening by 25%	308	308	1 077	1 077

In order to ensure the stable activity of the Bank, the formation of regulatory capital in accordance with the requirements of the National Bank of Ukraine and taking into account the recommendations on minimum capital requirements of the Basel Committee on Banking Supervision, as well as to determine the size and control of capital adequacy The Bank has implemented a model of internal control over the level of capital adequacy in all areas of its activity.

The risk of financial loss and the probability of a decrease in the cost of capital due to changes in exchange rates and prices for bank metals, unfavourable (opposite) to existing open currency positions, is an important type of risk that arises in the course of the bank's activities. The amount of possible financial losses depends on the size of open currency positions and the magnitude of changes in the exchange rates of the respective currencies. The analysis of the impact of the projected change in exchange rates on the financial result of the Bank is carried out using the approaches developed by the Bank.

The Bank does not consider other risks significant for the Bank, so the Bank does not monitor them.

Interest rate risk**Table 29.3 General analysis of interest rate risk in 2023**

Item	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than a year	Interest-free	Total
2023						
Total financial assets	635 053	20 159	-	63 288	563 752	1 282 252
Total financial liabilities	674 720	23 524	403	7 314	175 287	881 248
Net interest rate gap at the end of December 31	(39 667)	(3 365)	(403)	55 974	388 465	401 004

(in UAH thousand)

Note 29. Financial risk management (continued)**Table 29.4 General analysis of interest rate risk in 2022**

Item	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than a year	Interest-free	Total
<u>2022</u>						
Total financial assets	9 050 004	511	14 976	24 162	291 558	9 381 211
Total financial liabilities	795 342	14 302	4	8 394	8 328 589	9 146 631
Net interest rate gap at the end of December 31	8 254 662	(13 791)	14 972	15 768	(8 037 031)	234 580

Table 29.5 Monitoring of interest rates on financial instruments

(%)

	2023				2022			
	UAH	USD	EUR	Other	UAH	USD	EUR	Other
<u>Assets</u>								
Cash and cash equivalents	-	-	-	-	-	-	-	-
Loans and due from banks	-	-	-	-	-	-	-	-
Loans and due from customers	19,8	-	9	-	22,1	-	7	-
Investment in securities	17,3	5,6	-	-	12,0	4,4	2,9	-
Other assets	-	-	-	-	-	-	-	-
<u>Liabilities</u>								
Due to other banks	-	-	-	-	-	-	-	-
Due to customers	7,0	0,6	0,1	-	0,8	0,5	0,4	-
Debt securities, issued by the Bank	20,2	-	-	-	11,1	-	-	-
Other raised funds	-	-	-	-	-	-	1,0	-
Current accounts	6,7	0,4	0,1	-	0,8	0,4	0,6	-
Term deposits	9,0	1,4	0,1	-	2,5	0,7	0,3	-
Other liabilities	-	-	-	-	-	-	-	-

(in UAH thousand)

Note 29. Financial risk management (continued)**Geographical risk****Table 29.6 Analysis of the geographical concentration of financial assets and liabilities for 2023**

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	563 685	-	-	563 685
Loans and due from banks	-	-	-	-
Loans and due from customers	63 288	-	-	63 288
Investment in securities	655 212	-	-	655 212
Derivative financial assets	17	-	-	17
Other financial assets	50	-	-	50
Total financial assets	1 282 252	-	-	1 282 252
Liabilities				
Due to other banks	-	-	-	-
Due to customers	865 482	544	5 926	871 952
Debt securities issued by the bank	7 314	-	-	7 314
Other raised funds	-	-	-	-
Derivative financial liabilities	1 137	-	-	1 137
Other financial liabilities	845	-	-	845
Total financial liabilities	874 778	544	5 926	881 248

Assets and liabilities were classified on the basis of the counterparty's residence data.

Table 29.7 Analysis of the geographical concentration of financial assets and liabilities for 2022

	Ukraine	OECD	Other countries	Total
Assets				
Cash and cash equivalents	564 280	-	-	564 280
Loans and due from banks	-	-	-	-
Loans and due from customers	39 137	-	-	39 137
Investment in securities	8 777 794	-	-	8 777 794
Derivative financial assets	-	-	-	-
Other financial assets	-	-	-	-
Total financial assets	9 381 211	-	-	9 381 211
Liabilities				
Due to other banks	-	-	-	-
Due to customers	8 668 235	242 579	188 297	9 099 111
Debt securities issued by the bank	7 170	-	-	7 170
Other raised funds	-	-	39 050	39 050
Derivative financial liabilities	1 190	-	-	1 190
Other financial liabilities	110	-	-	110
Total financial liabilities	8 676 705	242 579	227 347	9 146 631

Assets and liabilities were classified on the basis of the counterparty's residence data.

(in UAH thousand)

Note 29. Financial risk management (continued)**Liquidity risk****Table 29.8 Analysis of financial assets and liabilities by maturity based on expected maturities as at December 31, 2023**

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	563 685	-	-	-	-	563 685
Loans and due from banks	-	-	-	-	-	-
Loans and due from customers	-	-	-	63 288	-	63 288
Investment in securities	635 053	20 159	-	-	-	655 212
Derivative financial assets	17	-	-	-	-	17
Other financial assets	50	-	-	-	-	50
Total financial assets	1 198 805	20 159	-	63 288	-	1 282 252
Liabilities						
Due to other banks	-	-	-	-	-	-
Due to customers	848 025	9 693	14 234	-	-	871 952
Debt securities issued by the bank	-	-	-	7 314	-	7 314
Other raised funds	-	-	-	-	-	-
Derivative financial liabilities	1 137	-	-	-	-	1 137
Other financial liabilities	1	-	844	-	-	845
Total financial liabilities	849 163	9 693	15 078	7 314	-	881 248
Net liquidity gap at the end of December 31	349 642	10 466	(15 078)	55 974	-	401 004
Cumulative liquidity gap at the end of the day on December 31	349 642	360 108	345 030	401 004	401 004	

Table 29.9 Analysis of financial assets and liabilities by maturity based on expected maturities as at December 31, 2021

	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	564 280	-	-	-	-	564 280
Loans and due from banks	-	-	-	-	-	-
Loans and due from customers	-	-	14 976	24 161	-	39 137
Investment in securities	8 777 283	511	-	-	-	8 777 794
Derivative financial assets	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
Total financial assets	9 341 563	511	14 976	24 161	-	9 381 211
Liabilities						
Due to other banks	-	-	-	-	-	-
Due to customers	9 084 407	14 295	10	399	-	9 099 111
Debt securities issued by the bank	-	-	-	7 170	-	7 170
Other raised funds	39 050	-	-	-	-	39 050
Derivative financial liabilities	1 190	-	-	-	-	1 190
Other financial liabilities	110	-	-	-	-	110
Total financial liabilities	9 124 757	14 295	10	7 569	-	9 146 631
Net liquidity gap at the end of December 31	216 806	(13 784)	14 966	16 592	-	234 580
Net liquidity gap at the end of December 31	216 806	203 022	217 988	234 580	234 580	

Note 29. Financial risk management (continued)

The management process of operational risk, compliance risk, strategic risk and reputation risk, risk regarding professional activity on stock market, involves effective management at all stages (from risk detection to minimization and control) and is carried out using a system of appropriate parameters.

The main purpose of creating and operating a system of parameters for managing operational risk, compliance risk, strategic risk, reputation risk, risk regarding professional activity on stock market is to ensure the adoption of appropriate management decisions aimed at reducing the impact of risk on the Bank as a whole in relation to certain activities of the Bank.

Other risks

The strategic, operational, compliance, reputational and professional activity on stock market risk management system includes:

- definition of basic principles of risk;
- identification, accounting and description of risks separately for each type of risk;
- risk assessment and control (monitoring) of the level of risks;
- measures to reduce (minimize) risks and eliminate the negative consequences of the implementation of risks, including the procedure and sources of funding for measures to compensate for losses;
- formation of the Bank's management structure, development of internal rules, procedures and technologies taking into account the basic principles of risk management adopted by the Bank.

(in UAH thousand)

Note 30. Capital management

The Bank's purpose in capital management is to ensure: compliance with capital requirements set by the National Bank of Ukraine and cover the negative effects of the crisis. In order to determine the level of capital, the Bank assesses the level of regulatory capital and capital adequacy ratios. Regulatory capital is one of the most important indicators of banks' activity, the main purpose of which is to cover the negative consequences of various risks that the Bank assumes in the course of its activities, and to ensure deposit protection, financial stability and stable operation of the Bank.

Regulatory capital structure

	December 31, 2023	December 31, 2022
<u>Common equity</u>		
Paid share capital	200 080	200 080
Unpaid share capital	31 720	-
Reserve and other funds of the bank	11 825	11 647
Decrease in common equity:		
Intangible assets less depreciation	(6 102)	(1 762)
Capital investments in intangible assets	-	-
Common equity (tier1 capital)	237 523	209 965
<u>Additional capital:</u>		
Reserves for standard debt	-	-
Estimated current year profit	102 063	3 555
Uncollected accrued income less provisions	(300)	(230)
Retained earnings of previous years	1 051	29 394
Additional capital (tier 2 capital)	102 814	32 719
Regulatory adjustments	-	(1 001)
Total regulatory capital	340 337	241 683
Regulatory capital adequacy ratio (N2) (not less than 10%)	80,50%	52,48%

The data given in the table take into account the corrective postings as of 01.01.2024. The regulatory capital adequacy ratio (solvency ratio) reflects the Bank's ability to settle its liabilities arising from trade, credit or other monetary transactions in a timely manner and in full. The higher the value of the regulatory capital adequacy ratio, the greater the share of risk assumed by the Bank's owners; and vice versa: the lower the value of the indicator, the greater the risk assumed by creditors / depositors of the Bank. The regulatory capital adequacy ratio is set to prevent excessive transfer of credit risk by the bank and the risk of non-return of bank assets to creditors / depositors of the Bank.

Each year, the ALMC oversees the preparation of a capitalization plan, which is a part of the Bank's budget and which is aimed at ensuring that the Bank will comply with the minimum capital requirements. It details a projected growth of capital and assets, dividend distributions, future business expansion, losses on bad loans and projected revenues. The plan also aims to maintain capital adequacy in accordance with the regulatory requirements of the National Bank of Ukraine. Due to the Bank's effective capital management policy, in 2023 the Bank complied with capital requirements.

(in UAH thousand)

Note 31. Commitments and contingencies**Table 31.1. Structure of lending commitments**

	As at December 31, 2023	As at December 31, 2022
Lending commitments issued	-	-
Guarantees issued	4 221	3 895
Provisions for lending commitments	(844)	(109)
Total lending commitments less provisions	3 377	3 786

Table 31.2. Structure of lending commitments by currencies

	As at December 31, 2023	As at December 31, 2022
UAH	-	-
EUR	3 377	3 786
Total	3 377	3 786

In December 2023, the Bank became one of the four recipients of a lawsuit filed by the Cabinet of Ministers of Ukraine (the "CMU"), which is limited to a claim regarding the Bank's use of funds, allegedly without sufficient grounds, which, according to the plaintiff, became the property of the state, and as a result, requires the defendants to return the interest income received from their use, inflationary increases and 3% per annum for breach of monetary obligation.

In the opinion of the Bank's management, which is confirmed by the opinion of several independent law firms with impeccable reputation, the claims against the Bank are unfounded as they do not take into account all the circumstances of the case, do not take into account the lack of proper regulation and/or conflicting legal provisions regarding legal relations on asset recovery, as well as the Bank's right under Article 1066 of the Civil Code of Ukraine to use all funds held on the accounts of the Bank's customers, guaranteeing their right to dispose of them without hindrance.

In addition:

1. There are no contractual/legal relations between the Bank and the client of the Bank's client, and therefore the Bank has no obligations to such person and the state, which subsequently became its shareholder;
2. Funds on the Bank's customer accounts were not and are not currently subject to seizure in accordance with the decision of the National Security and Defence Council; such object is securities, the ownership of which is subject to registration and depository accounting, and therefore such securities could become the property of the state only after their transfer to the relevant securities account of the state (authorised body). In view of this, the ownership of the funds is derivative and does not become the property of the state from the moment the NSDC Decision is adopted, as the plaintiff erroneously claims;
3. The funds were accumulated on the current account of the Bank's client, and this fact, as well as the fact of having joint owners of significant participation with such a client, does not create any additional obligations for the Bank to the depositors (clients) of such a client of the Bank and the state, which in January 2023 became a shareholder of the Bank's client;
4. The legal basis for the use of the Bank's client's funds is the bank account agreement concluded with the client and Article 1066 of the Civil Code of Ukraine;
5. The plaintiff's main arguments are based on the defendant's actions being in bad faith on moral and ethical grounds;

6. No regulatory legal act of Ukraine provides for the obligation or determines the possibility of a bank servicing a state debtor to independently initiate a payment transaction from the account of such a debtor in the bank servicing its account;

7. The bank does not duplicate the activities of its clients, including depository accounting, and therefore could not, even theoretically, fulfil the plaintiff's far-fetched obligation.

Subsequently, in December 2023, the Commercial Court of Kyiv issued a decision dismissing the CMU's claim, which was filed in violation of Ukrainian law and contrary to established case law. The appellate instance is considering the procedural issue of the legality of returning the claim to the applicant (the CMU) without consideration. As at the date of these financial statements, there are no pending court proceedings on the CMU's claim against the Bank to consider the merits of the claim. The Bank has a strong legal position, both in the appeal and in the dispute on the merits, and therefore does not see any risks in satisfying the claimant's claims and, accordingly, risks to the Bank's going concern.

In addition, the Bank is involved as a third party without asserting separate independent claims in several lawsuits brought by the Bank's ultimate beneficial owners against the National Bank of Ukraine regarding the regulator's decisions based on its professional judgement.

Under the most probable scenarios, the claims will not have a material impact on the Bank's financial position, and the costs of supporting the litigation will be at a reasonable market level. Although the uniqueness of the claim creates significant uncertainty in this regard, management does not anticipate any threat to the Bank's going concern.

(in UAH thousand)

Note 32. Fair value of financial instruments

In accordance with the Accounting Policy Statement, fair value is the amount at which an asset could be exchanged or a liability settled in an arm's length transaction between knowledgeable, willing and independent parties, namely

- the fair value of an asset is the amount that would be required to be paid to acquire (exchange) such an asset;
- the fair value of a liability is the amount by which such a liability can be settled.

Fair value for financial assets that are traded freely on the market is their quoted price in an active market. If a market for a financial instrument is not active, or if there is no active market or no comparable items available, the Bank uses a valuation technique and assumptions for each class of financial asset or financial liability to arrive at its estimated fair value.

As at 31.12.2023, the fair value of securities at fair value through other comprehensive income, derivative financial assets and derivative financial liabilities were as follows.

The Bank believes that the fair value of highly liquid assets/liabilities such as cash and cash equivalents and short-term funds raised/placed can be approximated to their carrying amounts.

Table 32.1 Information on financial assets in the Bank's balance sheet as at 31.12.2023, the fair value of which is disclosed:

				Fair value by various valuation methods			Total	Carrying amount
Date of assessment				Market quotations (level 1)	Valuation method using observable data (level 2)	Valuation method using indicators not supported by observable market data (level 3)		
Assets								
Cash and cash equivalents	31.12.2023	563 685	-	-	563 865	563 865		
Securities in the bank's portfolio carried at fair value through other comprehensive income	31.12.2023	655 212	-	-	655 212	655 212		
Financial assets carried at fair value through profit or loss	31.12.2023	17	-	-	17	17		
Liabilities								
Financial liabilities at fair value through profit or loss	31.12.2023	-	-	1 137	1 137	1 137		

(in UAH thousand)

Note 32. Fair value of financial instruments (continued)

Table 32.2 Information on financial assets in the Bank's balance sheet as at 31.12.2022, the fair value of which is disclosed:

				Fair value by various valuation methods			Total	Carrying amount
				Market quotations (level 1)	Valuation method using observable data (level 2)	Valuation method using indicators not supported by observable market data (level 3)		
Assets								
Cash and cash equivalents		31.12.2022		9 044 955	-	-	9 044 955	9 044 955
Securities in the bank's portfolio carried at fair value through other comprehensive income		31.12.2022		297 119	-	-	297 119	297 119
Financial assets carried at fair value through profit or loss		31.12.2022		-	-	-	-	-
Liabilities								
Financial liabilities at fair value through profit or loss		31.12.2022		-	-	1 190	1 190	1 190

(in UAH thousand)

Note 33. Presentation of financial instruments by valuation category**Table 33.1. Financial assets by valuation categories for 2023**

	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Cash and cash equivalents	563 685	-	-	563 685
Loans and due from customers	63 288	-	-	63 288
- loans to legal entities	61 752	-	-	61 752
- loans to individuals	1 536	-	-	1 536
Investments in securities	-	655 212	-	655 212
Total financial assets	626 973	655 212	-	1 282 185

Table 33.2. Financial liabilities by valuation categories for 2023

	Financial liabilities that at amortized cost	Financial liabilities at fair value through profit / loss		Total
		financial liabilities that are initially recognized at fair value through profit or loss	financial liabilities held for trade	
Due to customers	871 952	-	-	871 952
Debt securities issued by the bank	7 314	-	-	7 314
Other funds raised	-	-	-	-
Derivative financial liabilities	-	1 137	-	1 137
Other financial liabilities	1	-	-	1
Provisions for liabilities	844	-	-	844
Total financial liabilities	880 111	1 137	-	881 248

(in UAH thousand)

Note 33. Presentation of financial instruments by valuation category**Table 33.3. Financial assets by valuation categories for 2022**

	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Cash and cash equivalents	9 044 955	-	-	9 044 955
Loans and due from customers	39 137	-	-	39 137
- loans to legal entities	33 215	-	-	33 215
- loans to individuals	5 922	-	-	5 922
Investments in securities	-	297 119	-	297 119
Total financial assets	9 084 092	297 119	-	9 381 211

Table 33.4. Financial liabilities by valuation categories for 2022

	Financial liabilities that at amortized cost	Financial liabilities at fair value through profit / loss		Total
		financial liabilities that are initially recognized at fair value through profit or loss	financial liabilities held for trade	
Due to banks	-	-	-	-
Due to customers	9 099 111	-	-	9 099 111
Debt securities issued by the bank	7 170	-	-	7 170
Other funds raised	39 050	-	-	39 050
Derivative financial liabilities	-	1 190	-	1 190
Other financial liabilities	1	-	-	1
Provisions for liabilities	109	-	-	109
Total financial liabilities	9 145 441	1 190	-	9 146 631

(in UAH thousand)

Note 34. Related party transactions**Table 34.1 Balances on related party transactions for 2023**

	Major shareholders of the Bank	Jointly controlled companies	Key management personnel	Other related parties
Due to customers (contractual interest rate depending on currency and product	4 721	176 827	2 693	2 880

Table 34.2. Revenues and expenses from related party transactions for 2023

	Major shareholders of the Bank	Jointly controlled companies	Key management personnel	Other related parties
Interest income	-	-	227	-
Interest expenses	(225)	(11 727)	(348)	(80)
Commission income	26	957	6	9
Net loss on impairment of financial assets	-	-	76	-
Other operating income	-	6	-	-
Administrative and other costs	-	(144)	-	-
Short-term reward			(17 192)	

* Key management personnel members of the Supervisory Board and the Management Board of the Bank

Table 34.3. The total amount of loans granted to related parties and repaid by related parties during 2023

	Major shareholders of the Bank	Jointly controlled companies	Key management personnel	Other related parties
The amount of loans granted to related parties during the period	-	-	3 000	-
Total	-	-	-	-

During 2023, the Bank conducted transactions with related parties on general terms and conditions.

(in UAH thousand)

Note 34. Related party transactions (continued)**Table 34.4 Balances on related party transactions for 2022**

	Major shareholders of the Bank	Jointly controlled companies	Key management personnel	Other related parties
Loans and to due from customers	-	-	3 041	-
Due to customers (contractual interest rate depending on currency and product	-	-	(76)	-
Other funds raised	428 154	8 069 985	1 701	2 035

Table 34.5. Revenues and expenses from related party transactions for 2022

	Major shareholders of the Bank	Jointly controlled companies	Key management personnel	Other related parties
Interest income	-	-	513	-
Interest expenses	(1 089)	(6 931)	(120)	(34)
Commission income	8	805	8	254
Net loss on impairment of financial assets	-	-	(30)	-
Other operating income	-	47	-	214
Administrative and other costs	-	(293)	-	-
Short-term reward	-	-	(594 571)	-

* Key management personnel members of the Supervisory Board and the Management Board of the Bank

During 2022, the Bank conducted transactions with related parties on general terms and conditions.

Note 35. Subsequent events

On 22.01.2024, the National Bank of Ukraine temporarily deprived the holders of the Bank's significant shareholding of the voting rights for 6 months, which, in the opinion of the Bank's management, does not affect the financial stability of the Bank and does not create additional risks that may affect the continuity of its operations, since in accordance with the legislation of Ukraine such a measure does not result in the termination of the Bank's activities and does not affect the fulfilment of the Bank's obligations to customers, counterparties and depositors, which are fulfilled by the Bank in a timely manner and within the established timeframe. During the period of temporary deprivation of voting rights of the holders of significant participation, the shareholder's rights and functions will be exercised by a proxy, the appointment and approval of which by the National Bank of Ukraine is expected to be completed within the time limits established by the current legislation of Ukraine and before the expiry of the deadline for the shareholder to consider issues to be considered at the annual general meeting of shareholders. Until the appointment of a proxy is made, the Bank temporarily remains without a supreme management body.

The Bank has established and operates competent, suitable and effective Supervisory Board and Management Board, which, if necessary, consider all issues of the Bank's activities within their competence. In accordance with the legislation and the Bank's Charter, the exclusive competence of the shareholder includes the resolution of strategic issues of the Bank's activities, which are not expected to be resolved within the period of validity of the measure of influence applied to the Bank by the National Bank of Ukraine. This scope of the shareholder's competence does not require the shareholder's day-to-day involvement in the Bank's day-to-day operations and in ensuring the continuity of its business. The vast majority of issues necessary to ensure and maintain the financial stability of the Bank and the continuity of its operations fall within the competence of the Supervisory Board or the Management Board of the Bank.

Consideration of the conclusions of the audit report, approval of measures based on the results of consideration of such report and approval of the Bank's financial and economic performance for 2023 by the supreme governing body will be carried out by the trustee after his/her appointment.

Every decision of the National Bank of Ukraine regarding the shareholders, owners of significant interest and ultimate beneficial owners of the Bank is or will be challenged in court and the Bank has a strong legal position.

In connection with the ongoing large-scale armed aggression of the Russian Federation against Ukraine, based on the proposal of the National Security and Defence Council of Ukraine, on 12 February 2024, the President of Ukraine signed laws extending the martial law and general mobilisation in Ukraine from 14 February 2024 for a period of 90 days (i.e. until 14 May 2024).

The unpredictability of the scenarios of further escalation of hostilities makes it impossible to accurately estimate what proportion of customers will be able to return to normal loan servicing and in what time horizon. However, even under the optimistic scenario, the losses for the banks will be significant.

In view of the situation, the Bank's management conducts daily operational monitoring of its activities and ensures a quick response to current events and changes in the situation. In addition, assessing possible scenarios and based on the specifics of the assets, the Bank's management estimates possible losses as below the industry average and such that will not affect the Bank's ability to continue as a going concern.

The Bank expects to continue to comply with the requirements of the National Bank of Ukraine regarding the amount of its share capital and regulatory capital, as well as with prudential ratios.

There have been no other events that may be material to the users of the Bank's financial statements subsequent to reporting date.

February 26th, 2024

Chairperson of the Board _____ /Svitlana Korchynska /

Chief Accountant _____ /Natalia Derkachenko/

FREE TRANSLATION FROM THE UKRAINIAN ORIGINAL

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of "BANK AVANGARD", JSC

Report on the Audit of the Financial Statements

Opinion

We have conducted audit of financial statements of JOINT STOCK COMPANY "BANK AVANGARD" (the Bank), which comprise the statement of financial position as at December 31, 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including the summary of significant accounting policies.

In our opinion, the accompanying financial statements, presents fairly, in all material respects, the financial position of the Bank as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and meets the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" regarding the preparation of financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants including International Independence Standards (IESBA Code) and ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which discloses that on February 24, 2022, Russian troops began invading Ukraine and active hostilities are currently taking place and Note 35 in the financial statements, which discloses that on January 22, 2024, the National Bank of Ukraine temporarily deprived the Bank's significant shareholders of their voting rights for 6 months. As noted in Note 2 and Note 35, these events or conditions, together with other issues set out in Note 2 and 35, indicate that there is significant uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion on this issue has not been modified.

During the audit of the financial statements, we concluded that the use of the principle of going concern by management in the preparation of financial statements is appropriate. Our assessment of management's assumptions about the Bank's ability to continue to apply the going concern basis in accounting included:

- assessment of the negative consequences of continued military aggression on the banking sector of Ukraine and deprivation of voting rights of the Bank's significant shareholders;
- analysis of the scenarios of the situation identified by the Bank's management and possible actions in response to the leadership of Ukraine, the world community and the Bank's management;
- analysis of possible changes in the basic indicators of the Bank's activities in terms of asset impairment, falling volumes and margins of banking operations;
- analysis of regulatory capital adequacy and liquidity, ways to maintain them at a sufficient level.

We have found that forecasts of the situation and the corresponding negative consequences are very difficult to build due to the unpredictability of the leadership of the aggressor country. At the same time, management assumptions about the most likely scenarios are relevant.

Our responsibilities and the responsibilities of management for going concern are described in the relevant sections of this report.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter

Estimation of expected credit losses

(Notes 6,7,8,9)

The estimation of expected credit losses is a key area of professional judgment of the Bank's management. Identifying of impairment and determination of amount of expected reimbursement include some assumptions and analysis of different factors, including the financial position of borrower, expected future cash flow and fair value of collaterals.

The use of various assumptions may be result of various estimates of expected credit losses. Taking into account the materiality of customer credit balances and a certain level of subjectivity of judgments, we have determined estimation of expected credit losses as the key matter of the audit.

How the Key Audit Matter Was Considered in Our Audit

Our audit procedures included assessment of methodology used by the Bank to determine the signs of depreciation and calculating the provision for impairment, testing input data and assumption analysis. For provisions for loan impairment with detected individual signs of impairment, we have audited assumptions underlying the basis for detecting impairment and its quantitative assessment, including the analysis of financial indicators of borrowers, forecasts for future cash flows and collateral assessment. For provisions of loan impairment, calculated on collective basis, which have not been demonstrate individual signs of impairment, we analysed Bank's models and audited relevance and accuracy input data used in these models.

According to our observations, the key assumptions used in management's assessment of the amount of provision for impairment of loans to customers are supported by the available evidence.

Other Information

Management is responsible for the other information. The other information comprises the Management Report. The other information which we expected to receive after the date of this Auditor's report is Annual Information on the Issuer of Securities.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Information on the Issuer of Securities, and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and the NSSMC.

Responsibilities of Management and Those Charges with Governance for the Financial Statements

Management is responsible for preparation and fair presentation of these financial statements in accordance with the Law of Ukraine On Accounting and International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Preparing the financial statements, management is responsible for assessment Bank's ability to continue as a going concern, disclosure, if applicable, issues regarding going concern and apply going concern as a basis for accounting, except, if the management plans to liquidate the Bank or discontinue the activity or have not any other real alternatives for it.

Supervisory Board is responsible for overseeing the process of financial reporting of the Bank.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to release the auditor's report in which we express our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We provide the Supervisory Board with information about the planned scope and timing of the audit and significant audit results, including any significant deficiencies in internal control measures identified by us during the audit.

We also acknowledge to the Supervisory Board that we have complied with the relevant ethical requirements for independence, and inform them of any relationship and other matters that may reasonably be considered to affect our independence and, where applicable, of appropriate safeguards.

From the matters communicated with Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the requirements of other laws and regulations

Law of Ukraine "On audit of financial statements and auditing"

In accordance with the Law of Ukraine "On audit of financial statements and auditing", auditors must provide additional information and assurances.

Basic information about the audit firm

Full name	AC «CROWE UKRAINE»
Location	Obolonska Naberezhna 33, Kyiv, 04210 Ukraine
Information on inclusion in the Register of audit firms and auditors	Registration number in the Register of Auditors and Audit Entities 3681 An auditing entity that has the right to conduct a statutory audit of financial statements An auditing entity that has the right to conduct a statutory audit of the financial statements of public interest entities
Name of the body that appointed the auditing entity to conduct the statutory audit	Supervisory Board of the Bank
Date of appointment of the audit entity	28.09.2023 (Minute of the meeting of the Supervisory Board №11) 28.09.2023
Duration of the audit task	4 th year

We confirm that this independent auditor's report is consistent with the additional report to the Supervisory Board's audit committee of the Bank.

We declare that no prohibited non-audit services referred to Article 6 of the Law of Ukraine "On the Audit of Financial Statements and Audit Activities" were provided to the Bank.

The key audit partner and audit entity are independent of the Bank in conducting the audit.

We did not provide services other than statutory audit services and services disclosed in the management report or financial statements.

ISAs require the auditor to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The term "sufficient certainty" allows for some risk of significant monetary inconsistencies that may remain undetected; it is also assumed that the auditor cannot provide an absolute guarantee of the accuracy and completeness of the financial statements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The terms of the ISAs require that the audit be planned in such a way as to ensure that errors and inconsistencies that could materially affect the financial statements are sufficiently probable. However, because the auditor will not audit all transactions performed by the entity during the year, the audit may not provide complete assurance that errors and inconsistencies, including fraud, will be identified.

The engagement partner on the audit resulting in this independent auditor's report is Oleksandr Konovchenko.

For and on behalf of AC CROWE UKRAINE

Audit Director
Registered Auditor #100594

Vitaliy HAVRYSH

Engagement partner
Registered Auditor #101572

Oleksandr KONOVCHEKO

Kyiv, Ukraine

February 26, 2024